Draft Decision

AusNet Services electricity transmission determination 2027 to 2032

(1 April 2027 to 31 March 2032)

Attachment 1 – Building block approach: Maximum allowed revenue, Regulatory asset base, Regulatory depreciation and Corporate income tax

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AUSTRALIAN ENERGY REGULATOR

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Version	Date	Pages
1	30 June 2026	57

Contents

1 Building block approach 1

1.1 Maximum allowed revenue 2

1.2 Regulatory asset base 12

1.3 Regulatory depreciation 23

1.4 Corporate income tax 28

A Appendix 35

Glossary 54

1 Building block approach

We determine the transmission network service provider's (TNSP's) annual building block revenue requirement using a building block approach. The efficient costs to be recovered by a TNSP can be thought of as being made up of various building block costs. Our draft 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 annual building block revenue requirement for each year and where discussion on the elements that drive these costs can be found within this draft 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 – Maximum allowed revenue (Attachment 1)
Operating efficiency benefits/penalties	Efficiency benefit sharing scheme (Attachment 5)
Capital efficiency benefits/penalties	Capital expenditure sharing scheme (Attachment 6)
Demand management innovation allowance	Demand management incentive scheme and Demand management innovation allowance mechanism (Attachment 8)

1.1 Maximum allowed revenue

This section sets out our draft decision on AusNet's maximum allowed revenue (MAR) for the provision of prescribed transmission services over the 2027–32 regulatory control period. Specifically, it sets out our draft 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 factors.

We determine AusNet's annual building block revenue requirement using the building block approach. We then determine the X factors by smoothing the annual building block revenue requirements over the 2027–32 period. The X factor is used in the CPI–X methodology to determine the annual expected MAR (smoothed).

Table 1.2 AER's draft decision on AusNet's annual building block revenue requirement, annual expected revenue and X factors for the 2027–32 period ($ million, nominal)

	2027–28	2028–29	2029–30	2030–31	2031–32	Total
Return on capital	302.2	329.2	355.0	375.6	397.9	1,759.9
Regulatory depreciation[a]	121.5	136.8	149.9	158.2	175.4	741.8
Operating expenditure[b]	431.4	450.0	460.8	477.3	493.9	2,313.4
Revenue adjustments[c]	–3.2	–42.3	–39.2	–26.6	–7.2	–118.5
Cost of corporate income tax	5.7	7.7	8.6	13.7	15.8	51.4
Annual revenue requirement (unsmoothed)	857.5	881.4	935.1	998.2	1,075.9	4,748.1
Annual expected MAR (smoothed)	**804.1**	**904.6**	**957.8**	**1,014.2**	**1,073.8**	**4,754.4[d]**
X factor[e]	n/a[f]	–9.82%	–3.35%	–3.35%	–3.35%	n/a

Source: AER analysis.

(a) Regulatory depreciation is straight-line depreciation net of 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 estimated total revenue cap equals 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 MAR from one year to the next. A

[1] National Electricity Rules (NER), cll. 6A.4.2(a)(1)–(3), 6A.5.3(c) and 6A.6.8.

negative X factor represents a real increase in revenue, while a positive X factor represents a real decrease in revenue.

(f) AusNet is not required to apply an X factor for 2027–28 because we set the 2027–28 expected revenue in this decision. The MAR for 2027–28 is around 17.0% higher than the approved MAR for 2026–27 in real terms, or 19.9% higher in nominal terms.

1.1.1 Overview of proposal

AusNet proposed a total (smoothed) revenue cap of $4,696.0 million ($ nominal) for the 2027–32 period. AusNet's proposal sets out the details of its building block costs, annual building block revenue requirement, annual expected MAR and X factors over the 2027–32 period.[2]

1.1.2 Assessment approach

Appendix A.1 sets out the building block approach used to determine AusNet's expected MAR and the annual revenue adjustment process for the 2027–32 period.[3]

1.1.3 Reasons for draft decision

We determine a total annual building block revenue requirement of $4,748.1 million ($ nominal, unsmoothed) for AusNet over the 2027–32 period. This is $45.3 million (1.0%) higher than AusNet's proposed $4,702.8 million. This increase reflects the combined impact of our draft decisions on the individual building block costs.

The main changes to Ausnet's proposed building blocks, in nominal terms, are:

- a reduction in return on capital of $2.8 million, or 0.2% (section 1.2, Attachment 2 and Overview section 2.2). This is primarily driven by our reductions to AusNet's proposed forecast capital expenditure (capex). The reduction is partially offset by a higher rate of return and a higher opening RAB as at 1 April 2027 compared to AusNet's proposal.
- an increase in regulatory depreciation of $30.8 million, or 4.3% (section 1.3). This is primarily due to a lower expected inflation, which reduces the indexation of the RAB deducted from straight-line depreciation. This increase is partially offset by our reduction to AusNet's forecast capex, which reduces straight-line depreciation over the 2027–32 period.[4]
- a reduction in operating expenditure (opex) forecast of $33.2 million, or 1.4% (Attachment 3), driven by our estimate including a lower amount for AusNet's digital step change, and not including the landholder engagement step change.
- an increase in revenue adjustments of $27.3 million, or 18.7% (Attachments 5, 6 and 8). This is mainly driven by a lower EBSS penalty compared to AusNet's proposal and a positive CESS true-up amount and our draft decision not to include AusNet's proposed negative DMIAM carryover amount. These impacts are partially offset by a higher CESS penalty and a lower DMIAM amount.

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2 AusNet, *TRR 2027–32 Post Tax Revenue Model*, October 2025; AusNet, *TRR 2027–32 Revenue Proposal*, October 2025, p. 193.

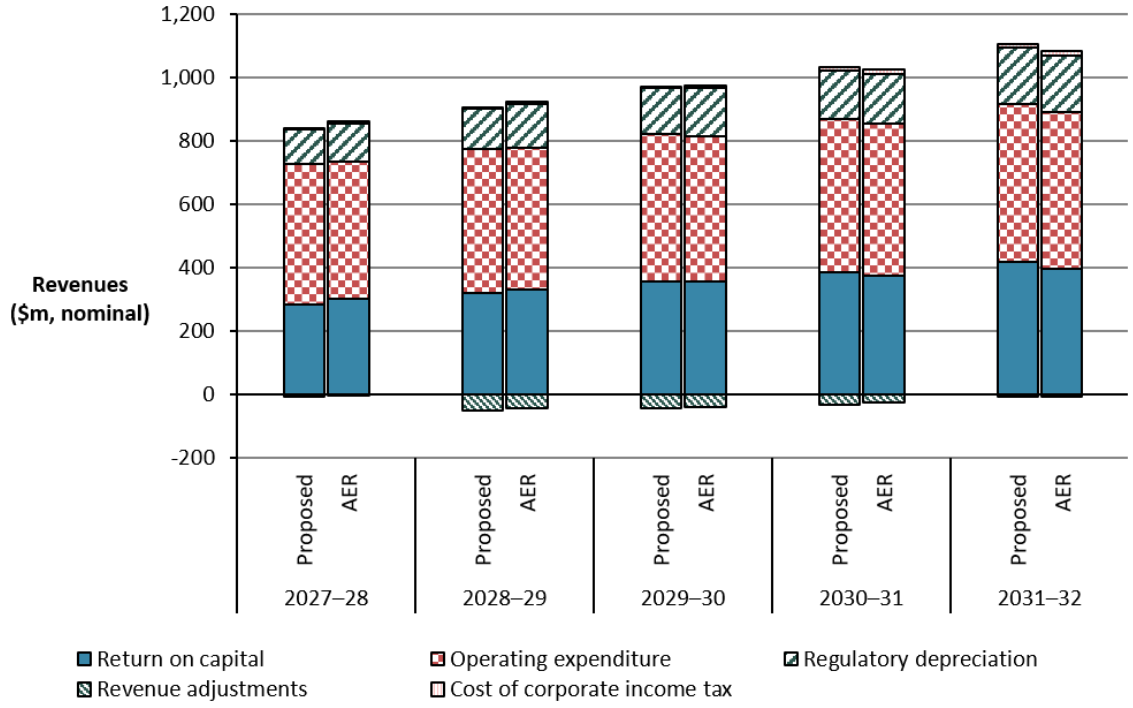
3 NER, cll. 6A.4.2(a)(2), 6A.6.8(c)(2).

4 Regulatory depreciation is straight-line depreciation net of inflation indexation on the opening RAB. A lower indexation amount increases the regulatory depreciation, all else being equal.

- an increase in the cost of corporate income tax of $23.3 million, or 82.6% (section 1.4). This is primarily due to our draft decision on a higher return on equity and higher regulatory depreciation, which increase taxable income. This increase is also driven by lower tax depreciation, due to lower forecast capex and lower immediately expensed capex, which increases taxable income and therefore the corporate income tax amount.

Figure 1.1 compares the building block components that make up AusNet's annual building block revenue requirement under our draft decision and AusNet's proposal.

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



Source: AER analysis; *AusNet, TRR 2027–32 Post Tax Revenue Model*, October 2025.
Note: Revenue adjustments include EBSS, CESS, shared asset decrements and DMIAM amounts. Opex includes debt raising costs.

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

To determine AusNet's expected MAR profile over the 2027–32 period, we set the MAR for the first regulatory year, 2027–28, at $804.1 million ($ nominal). This is $53.5 million lower than the annual building block revenue requirement for that year. We then apply expected inflation of 2.45% per annum and a profile of X factors to determine expected MAR in subsequent years.[5]

For this draft decision, we determine X factors for AusNet of –9.82% for 2028–29 and –3.35% per annum from 2029–30 to 2031–32.[6] The net present value (NPV) of the annual building block revenue requirements is $3,920.6 million ($ nominal) as at 1 April 2027. Applying the CPI-X framework to this NPV, we determine an annual expected MAR

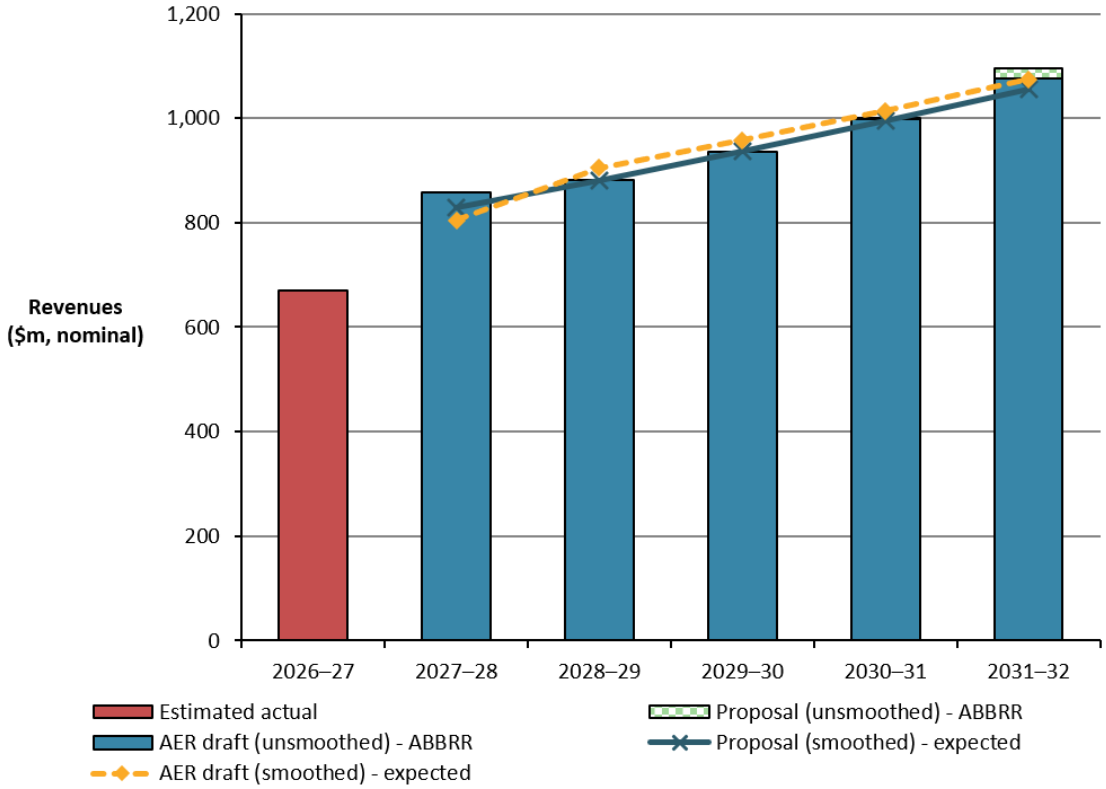
5 NER, cl. 6A.5.3(c)(3).

6 AusNet is not required to apply an X factor for 2027–28 because we set the 2027–28 expected MAR in this decision.

(smoothed) of $804.1 million in 2027–28 for AusNet, increasing to $1,073.8 million ($ nominal) in 2031–32. This results in an estimated total revenue cap of $4,754.4 million for AusNet over the 2027–32 period.

Figure 1.2 shows our draft decision on AusNet's annual expected MAR (smoothed) and annual building block revenue requirements (unsmoothed) for the 2027–32 period.

Figure 1.2 AER's draft decision and AusNet's proposed annual building block revenue requirement ($ million, nominal)



Source: AER analysis.
Note: Annual building block revenue requirement (ABBRR).

The X factors we set minimise, as far as reasonable possible, the variance between the expected MAR (smoothed) and the annual building block revenue requirement (unsmoothed) in the last year of the 2027–32 period.[7] This helps reduce the risk of a large revenue variance, and therefore price shocks, at the start of the 2032–37 period. Our standard approach is to keep the divergence between smoothed and unsmoothed revenue in the final year within ±3%, to support smoother price changes across regulatory periods.

We did not receive any stakeholder submissions on AusNet's proposed smoothing profile.

For this draft decision, we determine higher revenues than AusNet's proposal. This is mainly driven by updates to market variables, including rate of return, consumer price index (CPI) and expected inflation, and by higher revenue adjustments. Our draft decision also provides for higher revenues than those approved for the 2022–27 period. In nominal terms, AusNet's unsmoothed revenue for the first year of the 2027–32 period (2027–28) is 27.8% higher than

[7] NER, cl. 6A.6.8(c)(2).

the approved revenue for the final year of the 2022–27 period (2026–27). It then increases by an average of 5.8% per annum over the remaining 4 years of the 2027–32 period.

While transmission charges account for a relatively small share of the annual electricity bills, we are mindful of the impact that this first-year increase could have on network charges for AusNet's consumers. Our smoothed revenue profile therefore reduces the initial increase and spreads it over the first 2 years of the 2027–32 period.

We have smoothed revenue over the 2027–32 period, resulting in an initial increase of 19.9% (nominal) in 2027–28, followed by a smaller increase of 12.5% in 2028–29 and average annual increases of 5.9% over the remaining 3 years of the 2027–32 period (2029–30 to 2031–32).[8] This smoothing profile results in a divergence between smoothed and unsmoothed revenue of 0.2% in 2031–32, which is within our preferred range.[9] We will review this smoothing profile for the final decision.

Our draft decision increases AusNet's total annual building block revenue requirement by $1,812.8 million (61.8%) compared with the 2022–27 period, in nominal dollar terms:

- Approximately 59% of the increase is due to factors largely outside AusNet's control. These include higher actual inflation over the 2022–27 period, a higher rate of return and lower expected inflation over the 2027–32 period (Overview section 2.2). Together, these factors increase the return on capital and regulatory depreciation building blocks compared with the 2022–27 period.
- The remaining 41% is due to other factors, including higher actual capex in the 2022–27 period than forecast in the 2022–27 determination, higher forecast capex and opex for the 2027–32 period (Attachments 2 and 3), and the roll-in of growth assets reflecting the transmission planning arrangements in Victoria (section 1.2.4.1).

1.1.3.2 Shared assets

TNSPs, such as AusNet, may use assets to provide both prescribed transmission services we regulate and unregulated services. For example, AusNet may rent transmission tower space to third parties to house telecommunications equipment. These assets are known as shared assets.[10] If shared asset revenue is material,[11] 10% of the unregulated revenues earned from those assets is used to reduce the TNSP's revenue for prescribed transmission services.[12]

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8 In real 2026–27 dollar terms, this consists of initial increase of 17.0% for 2027–28, followed by a smaller increase of 9.8% in 2028–29, and an increase of 3.4% per annum for the remainder of the 2027–32 period.

9 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 promote smoother price changes for users across the period. In the present circumstances, based on the X factors we have determined for AusNet, this divergence is around 0.2%.

10 NER, cl. 6A.5.5.

11 The shared asset principles establish that use of share assets should be material before cost reductions are applied. The NER does not define materiality in this context. Our approach to what constitutes a material use of shared assets is that unregulated use of shared assets in a specific regulatory year is material when a service provider's annual average unregulated revenue from shared assets is expected to be greater than 1% of its MAR for that regulatory year.

12 AER, *Shared asset guidelines*, June 2025, p. 10.

AusNet proposed a shared asset revenue adjustment because its forecast annual unregulated revenue from shared assets exceeds the AER's materiality threshold.[13]

For the purpose of applying the materiality threshold, AusNet's forecast unregulated revenue must be compared to the regulated revenues we determine, rather than those proposed by AusNet. Despite the higher expected MAR determined in our draft decision, AusNet's forecast unregulated revenue remains above 1% of expected MAR in each year of the 2027–32 period. The materiality threshold is therefore met, and we apply a shared asset revenue adjustment over 2027–32.[14]

AusNet forecast shared asset revenue of $102.1 million ($2026–27) over the 2027–32 period.[15] This is $32.3 million (24%) lower than the amount for the 2022–27 period. In its response to our information request, AusNet explained that the 2022–27 forecast overstated shared asset revenue, mainly due to terminated telecommunications contracts, lower market rates and lower escalation rates.[16] Using its latest forecasts for the 2022–27 period, AusNet submitted that shared asset revenue is broadly consistent between the 2022–27 and 2027–32 periods.

We consider AusNet's forecast unregulated revenue from shared assets is reasonable. As the materiality threshold is met, we therefore accept the proposed shared asset revenue adjustment of $10.2 million ($2026–27), representing 10% of AusNet's forecast shared asset revenue of $102.1 million.

1.1.3.3 Indicative average transmission charges

Our draft decision on AusNet's expected MAR ultimately affects the prices consumers pay for electricity. There are several steps required in translating our revenue decision into indicative transmission price impacts.

We regulate AusNet's prescribed transmission services under a revenue cap form of control. This means our draft decision on AusNet's expected revenues does not directly translate to price impacts. This is because AusNet'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.

AusNet recovers its transmission regulated revenue through transmission charges, set annually in accordance with the pricing methodology approved by us as part of this determination (Attachment 9).

Figure 1.3 shows AusNet's indicative average transmission charges from the 2022–27 period to the 2027–32 period, in real 2026–27 dollar terms, based on the expected MAR under our

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13 AusNet, *TRR 2027–32 Revenue Proposal*, October 2025, pp. 145–146.

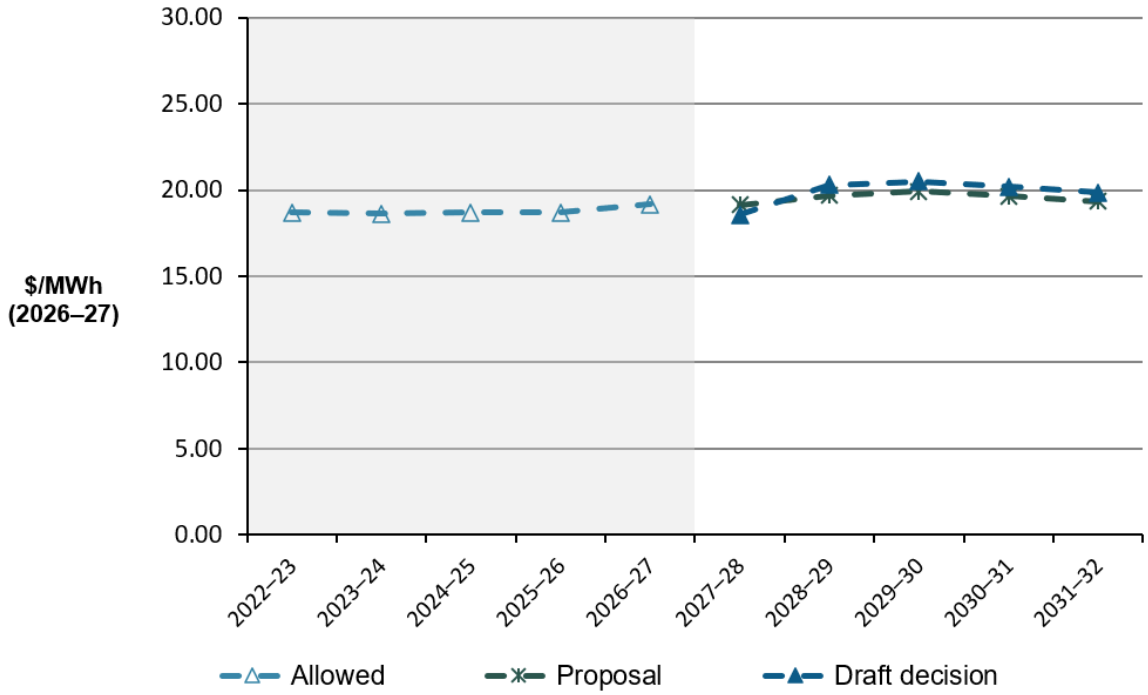
14 AER, *Shared asset guidelines*, June 2025, p. 7. We will reassess the materiality of the forecast shared asset unregulated revenues for our final decision.

15 AusNet, *TRR 2027–32 RIN Workbook 1–Forecast*, October 2025.

16 AusNet, *response to AER information request #011–General modelling,* dated 15 January 2026.

draft decision and AusNet's proposal. The indicative price path is estimated by dividing expected MAR by forecast energy consumption for each year.[17]

Figure 1.3 Indicative transmission price path for AusNet ($/MWh, 2026–27)



Source: AER analysis.
Notes: The indicative transmission price path is based on actual and forecast energy consumption amounts in Victoria.

We estimate that our draft decision on AusNet's annual expected revenue will increase average transmission charges by about 4.4% per annum over the 2027–32 period, in real 2026–27 dollar terms.[18] This compares to the average increase of 3.9% per annum under AusNet's proposal, in real 2026–27 dollar terms.[19] This estimate will be subject to ongoing revenue adjustments and changes in consumer energy consumption during the 2027–32 period.

Table 1.3 shows the indicative price path under AusNet's proposal and our draft decision, in nominal terms.

17 We have updated AusNet's proposed forecast energy consumption using the latest 2025 data from Australian Energy Market Operator (AEMO). AEMO, *National Electricity and Gas forecasting - 2025 Electricity Statement of Opportunities*, accessed on 19 December 2025.

18 In nominal terms, we estimate average transmission charges to increase by 7.0% per annum. This amount reflects an expected inflation rate of 2.45% per annum as determined in this draft decision.

19 In nominal terms, we estimate average transmission charges to increase by 6.6% per annum. This amount reflects an expected inflation rate of 2.62% per annum as proposed by AusNet.

Table 1.3 Comparison of price impact of AusNet's proposal and the AER's draft decision ($ nominal)

	2026–27	2027–28	2028–29	2029–30	2030–31	2031–32
AER draft decision						
Price path ($/MWh)[a]	16.0	19.0	21.3	22.0	22.2	22.4
Price path (change %)	–	19.1%	11.9%	3.5%	0.9%	0.7%
AusNet's proposal						
Price path ($/MWh)[a]	16.0	19.6	20.7	21.5	21.8	22.0
Price path (change %)	–	22.9%	5.7%	3.8%	1.2%	1.1%

Source: AER analysis; AusNet, *TRR 2027–32 Post Tax Revenue Model*, October 2025.
(a) The price path is in nominal terms and is constructed by dividing the nominal expected revenue by forecast energy consumption for each year of the period.

1.1.3.4 Expected impact of draft decision on electricity bills

The annual electricity bill for customers in AusNet's network reflects the combined cost of all the electricity supply chain components—wholesale energy generation, transmission, distribution, metering and retail costs. This draft decision primarily relates to the transmission charges, which represent, on average, approximately 8% of residential customers' annual electricity bills and 9% of small business customers' annual electricity bills in Victoria.[20]

We estimate the expected bill impact by varying the transmission charges in accordance with our draft decision, while holding all other components that make up the electricity bill constant.[21] This approach isolates the effect of our draft decision on the core transmission charges only. It does not imply that the other bill components will remain unchanged over the period.[22]

Based on this approach, we expect that our draft decision on the transmission component to increase the average annual residential electricity bill in 2031–32 by about $57 ($ nominal), or 3.3%, relative to the 2026–27 total bill level. If we had accepted AusNet's proposal, the expected change in the transmission component would increase the average annual residential electricity bill in 2031–32 by about $54 ($ nominal), or 3.1%, relative to the 2026–27 total bill level.

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20 AER analysis; AusNet, *2026–27 – SCS pricing model*, 15 May 2026; Essential Services Commission, *Victorian Default Offer 2026–27: Final Decision Model*, 20 May 2026. These transmission proportions include GST.

21 We have not factored in any changes arising from incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur through AusNet's annual pricing process. Other components of a typical electricity bill are held constant at the levels established in the 2026–27 Victorian default offer.

22 This also assumes actual energy consumption will equal the draft decision forecast. Because AusNet operates under a revenue cap, changes in energy consumption will affect transmission charges over the 2027–32 period.

Our estimated bill impact is based on the typical annual electricity usage of 4,000 kWh for residential customers in Victoria.[23] Therefore, customers with different usage will experience different bill impacts. Other factors, such as metering, wholesale and retail costs, will also affect electricity bills.

For small business customers, we estimate the bill impact for two usage categories:[24]

- 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.
- 20,000 kWh per annum, which the ESCV has historically adopted as average annual usage for small business customers in Victoria.

For a small business customer consuming 10,000 kWh per annum, we expect our draft decision on the transmission component to increase the average electricity bill in 2031–32 by about $144 ($ nominal), or 3.7%, relative to the 2026–27 total bill level. By comparison, if we had accepted AusNet's proposal, the expected change in the transmission component would increase the average annual small business electricity bill in 2030–31 by about $136 ($ nominal), or 3.5%, relative to the 2026–27 total bill level.

For a small business customer consuming 20,000 kWh per annum, we expect our draft decision on the transmission component to increase the average annual electricity bill in 2031–32 by about $290 ($ nominal), or 4.0%, relative to the 2026–27 total bill level. By comparison, if we had accepted AusNet's proposal, the expected change in the transmission component would increase the average annual small business electricity bill in 2031–32 by about $273 ($ nominal), or 3.7%, relative to the 2026–27 total bill level.

23 Essential Services Commission, *Victorian Default Offer 2026–27: Final Decision Model*, May 2026.

24 Essential Services Commission, *Victorian Default Offer 2026–27: Final Decision Model*, May 2026.

Table 1.4 Estimated impact of AusNet's proposal and AER's draft decision on annual electricity bills for the 2027–32 period ($ nominal)

	2026–27[a]	2027–28	2028–29	2029–30	2030–31	2031–32
AER draft decision						
Residential (4,000 kWh consumption)	1,748	1,775	1,795	1,802	1,804	1,805
Annual change[b]	-	27 (1.6%)	20 (1.1%)	7 (0.4%)	2 (0.1%)	1 (0.1%)
Small business 10,000 kWh consumption)	3,896	3,964	4,015	4,032	4,036	4,040
Annual change[b]	-	68 (1.8%)	51 (1.3%)	17 (0.4%)	5 (0.1%)	4 (0.1%)
Small business 20,000 kWh consumption)	7,319	7,457	7,559	7,592	7,601	7,609
Annual change	-	138 (1.9%)	102 (1.4%)	34 (0.4%)	9 (0.1%)	8 (0.1%)
AusNet's proposal						
Residential (4,000 kWh consumption)	1,748	1,780	1,790	1,797	1,800	1,802
Annual change[b]	-	32 (1.9%)	10 (0.6%)	7 (0.4%)	2 (0.1%)	2 (0.1%)
Small business 10,000 kWh consumption)	3,896	3,978	4,003	4,020	4,026	4,032
Annual change[b]	-	82 (2.1%)	25 (0.6%)	18 (0.4%)	6 (0.1%)	5 (0.1%)
Small business 20,000 kWh consumption)	7,319	7,484	7,533	7,569	7,581	7,592
Annual change	-	165 (2.2%)	50 (0.7%)	36 (0.5%)	12 (0.2%)	11 (0.1%)

Source: AER analysis; AusNet, *TRR 2027–32 Post Tax Revenue Model*, October 2025.

(a) ESCV, *Victorian Default Offer 2026–27,* May 2026, pp. 7–10; *ESCV, Victorian Default Offer 2026–27: Final Decision Model,* May 2026.

(b) Annual change amounts and percentages are indicative. They are derived by varying the transmission component of the 2026–27 bill amounts in proportion to annual expected MAR divided by forecast energy consumption, consistent with 2025 ESOO. Actual bill impacts will vary depending on electricity consumption and tariff class.

1.2 Regulatory asset base

The RAB is the value of the assets used by AusNet to provide prescribed transmission services.[25] Our transmission determination specifies the RAB as at the commencement of the regulatory control period and the appropriate method for the indexation of the RAB.[26] The indexation of the RAB is one of the building blocks that form the annual building block revenue requirement for each year of the 2027–32 period.[27] We set the RAB as the foundation for determining a TNSP'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.[28]

This section presents our draft decision on the opening RAB value as at 1 April 2027 for AusNet's transmission network and our forecast of its RAB values over the 2027–32 period. It also presents our draft decision for establishing the RAB as at the commencement of the 2032–37 period using depreciation that is based on forecast capex.[29]

1.2.1 Draft decision

We determine an opening RAB value of $4,769.5 million ($ nominal) as at 1 April 2027 for AusNet. This value is $53.1 million (or 1.1%) higher than AusNet's proposed opening RAB of $4,716.4 million ($ nominal) as at 1 April 2027.[30] This increase is mainly due to our updates to the CPI inputs for 2025–26 and 2026–27 in the roll forward model (RFM) to reflect more recent data:

- We updated the actual CPI for 2025–26 to 3.24%, based on the September quarter 2025 CPI published by the Australian Bureau of Statistics (ABS), which became available after AusNet submitted its proposal. This compares with the estimated CPI of 2.55% adopted in AusNet's proposal.
- We updated the estimated CPI for 2026–27 to 3.20%,[31] reflecting the Reserve Bank of Australia (RBA)'s May 2026 Statement on Monetary Policy.[32] This compares with the estimated CPI of 3.00% adopted in AusNet's proposal. We will update this value with the actual CPI in our final decision.

As the RAB must be maintained in real dollar terms through indexing for inflation,[33] the above amendments to CPI inputs increase the opening RAB value as at 1 April 2027 by $36.5 million (0.8%) compared to AusNet's proposal, all else being equal.

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25 NER, cl. 6A.6.1(a).

26 NER, cll. 6A.4.2(3A) and (4).

27 NER, cll. 6A.5.4(a)(1) and (b)(1).

28 NER, cll. 6A.5.4(a)(2) and (3).

29 NER, cl. 6A.14.1(5E).

30 AusNet, *TRR 2027–32 Roll Forward Model*, October 2025.

31 This value reflects the average of the December 2026 and June 2027 inflation forecasts published in the RBA's May 2026 Statement of Monetary Policy.

32 RBA, *Statement on Monetary Policy, Table 3.2: Detailed Forecast Table,* May 2026, p. 64.

33 NER, cll. 6A.5.4(b)(1) and 6A.6.1(e)(3).

We also included $10.1 million ($ nominal)[34] Software-as-a-Service (SaaS) capex in the actual and estimated capex inputs for 2021–22 and the 2022–27 period, where this capex was omitted from AusNet's proposal due to inconsistent treatment between annual reporting and the 2022–27 determination.[35] This amendment also contributed to the increase in the opening RAB as at 1 April 2027.

We accept AusNet's proposed method for calculating the opening RAB. However, in addition to the CPI updates and the inclusion of SaaS capex, we have made other amendments to the RFM inputs that also affected the opening RAB as at 1 April 2027, as set out in section 1.2.4.1.

To determine the opening RAB as at 1 April 2027, we rolled forward the RAB over the 2022–27 period to derive a closing RAB value as at 31 March 2027 in accordance with our RFM.[36] This roll forward includes an adjustment at the end of the 2022–27 period to account for the difference between actual 2021–22 capex and the estimate approved in the 2022–27 determination.[37] All other adjustments are applied as part of the final year adjustments at 31 March 2027 to establish the opening RAB at 1 April 2027.[38]

We updated AusNet's growth assets roll-in amount to $299.2 million[39] from its proposed $294.8 million, reflecting updated CPI inputs. Growth assets are capex on non-contestable works undertaken by AusNet during a regulatory control period in response to requests from AEMO (now VicGrid) or distribution network service providers. Unlike other capex, these assets sit outside the RAB and are governed by commercial contracts until they are rolled into the RAB at the next revenue determination. We are satisfied that the method applied by AusNet to calculate the roll-in value of these assets for the 2022–27 period is consistent with the terms of the relevant commercial contracts, and broadly consistent with our RFM and approach in previous determinations.[40] However, we have updated the roll-in amount to reflect the latest CPI.

Table 1.5 sets out our draft decision on the roll forward of AusNet's RAB over the 2022–27 period.

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34 This amount is a placeholder for the draft decision, reflecting the values provided by AusNet on 20 March 2026 (see: AusNet, *Response to AER information request #003–Treatment of SaaS costs for 2022–27,* dated 20 March 2026 and 2 June 2026). This value may be updated at the final decision stage, subject to AusNet resubmitting its regulatory accounts and AIO for the relevant years to reflect the corrected treatment.

35 AusNet reported SaaS expenditure as opex for 2021–22 and the 2022–27 period, whereas it was treated as capex at the 2022–27 determination.

36 AER, *Electricity transmission network service providers: Roll forward model (version 4.1)*, May 2022.

37 The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2022–27 determination.

38 These end of period adjustments are applied at the end of the final year of the roll forward period, which in this case is 31 March 2027. For AusNet, this includes adjustments for capitalised leases, growth assets and the removal of small residuals for legacy asset classes. Our draft decision on final year adjustments is set out in section 1.2.4.1.

39 This includes a true-up for the difference between estimated and actual growth assets rolled in at the 2022–27 determination.

40 In previous determinations, the roll-in of growth assets into the RAB was referred to as 'group 3 assets'.

Table 1.5 AER's draft decision on AusNet's RAB for the 2022–27 period ($ million, nominal)

	2022–23	2023–24	2024–25	2025–26[a]	2026–27[b]
Opening RAB	3,575.1	3,769.3	3,938.2	4,040.0	4,211.1
Net capex[c]	119.1	146.2	188.5	252.8	392.6
Inflation on opening RAB[d]	259.8	202.6	110.6	130.7	134.8
Less: straight-line depreciation[e]	184.7	179.9	197.4	212.4	226.1
Interim closing RAB	3,769.3	3,938.2	4,040.0	4,211.1	4,512.4
Difference between estimated and actual capex in 2021–22	-	-	-	-	–20.9
Return on difference for 2021–22 capex	-	-	-	-	–8.0
Final year asset adjustments (excluding growth assets)[f]	-	-	-	-	–13.2
Growth assets roll-in[g]	-	-	-	-	299.2
Closing RAB as at 31 March 2027	**-**	**-**	**-**	**-**	**4,769.5**

Source: AER analysis.

(a) Based on estimated capex provided by AusNet. We will update the RAB roll forward for actual capex in the final decision.
(b) Based on estimated capex provided by AusNet. We expect to update the RAB roll forward with a revised capex estimate in the final decision, and to true-up the RAB for actual capex in the next determination.
(c) As-incurred, net of disposals, and adjusted for actual CPI and half-year weighted average cost of capital (WACC).
(d) We will update the RAB roll forward to reflect actual CPI for 2026–27 in the final decision.
(e) Adjusted for actual CPI. Based on forecast as-commissioned capex.
(f) Includes final year asset adjustments for capitalised lease costs and the removal of small residuals from legacy asset classes.
(g) Roll-in of growth assets at 1 April 2027, including the true-up for the difference between estimated and actual growth assets rolled in at the 2022–27 determination due to updates to CPI and the return on that difference. We expect AusNet to provide an updated amount in its revised proposal, reflecting actual capex for 2025–26 and updated estimates for 2026–27. Any true-up for 2026–27 actual capex will be applied at the next determination.

We determine a forecast closing RAB value as at 31 March 2032 of $5,889.3 million ($ nominal) for AusNet. This is $773.7 million (11.6%) lower than AusNet's proposed closing RAB value of $6,663.0 million ($ nominal).[41] This reduction is primarily driven by our draft decision to reduce AusNet's proposed forecast capex (Attachment 2). Our draft decisions on the expected inflation rate (Overview section 2.2) also contributes to the reduction, partially

41 AusNet, *TRR 2027–32 Post Tax Revenue Model,* October 2025.

offset by our draft decisions on forecast straight-line depreciation (section 1.3) and the opening RAB as at 1 April 2027 (section 1.2.4.1).[42]

Table 1.6 sets out our draft decision on the forecast RAB values for AusNet over the 2027–32 period.

Table 1.6 AER's draft decision on AusNet's RAB for the 2027–32 period ($ million, nominal)

	2027–28	2028–29	2029–30	2030–31	2031–32
Opening RAB	4,769.5	5,133.5	5,455.9	5,626.2	5,774.8
Net capex[a]	485.5	459.2	320.1	306.9	289.8
Inflation on opening RAB	116.9	125.8	133.7	137.8	141.5
Less: straight-line depreciation[b]	238.3	262.6	283.6	296.1	316.9
Closing RAB	**5,133.5**	**5,455.9**	**5,626.2**	**5,774.8**	**5,889.3**

Source: AER analysis.
(a) As-incurred, and net of forecast disposals. Consistent with the timing assumptions in the post-tax revenue model (PTRM), capex includes a half-year WACC to reflect the six-month period before it is added to the RAB.
(b) Based on as-commissioned capex.

Our draft decision is to apply the forecast depreciation approach to establish the opening RAB at the commencement of the 2032–37 period.[43] We consider this approach is consistent with the capital expenditure incentive objective in that it will provide sufficient incentives for AusNet to achieve capex efficiency gains over the 2027–32 period. This approach is also consistent with our *Framework and approach* (F&A) paper.[44]

1.2.2 Overview of proposal

AusNet used our RFM to establish an opening RAB as at 1 April 2027 and our PTRM to roll forward the RAB over the 2027–32 period. It proposed an opening RAB value as at 1 April 2022 of $3,575.1 million ($ nominal). Rolling forward this RAB with actual/estimated capex and using depreciation based on forecast capex approved for the 2022–27 period, AusNet proposed a closing RAB value of $4,716.4 million ($ nominal) as at 31 March 2027. AusNet's proposal sets out the details of its RAB roll forward over the 2022–27 period.[45]

AusNet proposed a forecast closing RAB as at 31 March 2032 of $6,663.0 million ($ nominal). This value reflects its proposed opening RAB, forecast capex, expected inflation,

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42 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 draft decision on the forecast RAB also reflects our amendments to the rate of return for the 2027–32 period (Overview section 2.2).

43 NER, cl. 6A.14.1(5E).

44 AER, *Final framework and approach for AusNet Services transmission determination 2027–32*, April 2025, p. 7.

45 AusNet, *TRR 2027–32 Revenue Proposal,* October 2025, pp. 160–161.

and depreciation (based on forecast capex) over the 2027–32 period. AusNet's proposal sets out the details of its RAB roll forward over the 2027–32 period.[46]

For the final year (end of period) asset adjustments,[47] AusNet proposed to:

- reduce the end of period value of capitalised leases by $13.2 million, reflecting updates made during the 2022–27 period to lease arrangements established before 1 April 2022
- remove a total residual value of $0.9 million relating to 10 legacy asset classes, including 4 lease-related asset classes, inventory adjustment, accelerated depreciation, decommissioned insulators and instrument transformers, stating that they will be mostly depreciated in the current 2022–27 period and will not be used to allocate new capex.[48]

AusNet also proposed to roll in $294.8 million of growth assets to the opening RAB as at 1 April 2027. This amount includes a $11.1 million true-up for the difference between estimated and actual growth assets from the 2022–27 determination and the return on this difference.

1.2.3 Assessment approach

Appendix A.2 sets out our assessment approach for the RAB.

1.2.4 Reasons for draft decision

We determine an opening RAB of $4,769.5 million ($ nominal) as at 1 April 2027 for AusNet, an increase of $53.1 million (1.1%) from its proposed value. We forecast a closing RAB value of $5,889.3 million by 31 March 2032. This represents a reduction of $773.7 million (11.6%) compared with AusNet's proposal. The reasons for our draft decision are discussed below.

1.2.4.1 Opening RAB as at 1 April 2027

We determine an opening RAB value of $4,769.5 million as at 1 April 2027, which is $53.1 million (1.1%) higher than AusNet's proposed opening RAB of $4,716.4 million ($ nominal).[49] This increase is mainly due to our amendments in the RFM to:

- update the CPI inputs for 2025–26 and 2026–27 to reflect more recent data
- include $10.1 million ($ nominal)[50] Software-as-a-Service (SaaS) capex in the actual and estimated capex inputs for 2021–22 and the 2022–27 period, where this capex was

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46 AusNet, *TRR 2027–32 Revenue Proposal,* October 2025, p. 166.

47 The final year asset adjustments section in the RFM is primarily for adjustments at the end of the current regulatory control period. This section is used when the TNSP needs to adjust its closing RAB by removing or adding assets (such as for a change in service classification) in the final year of the regulatory control period.

48 AusNet, *TRR 2027–32 Revenue Proposal,* October 2025, pp. 163-166.

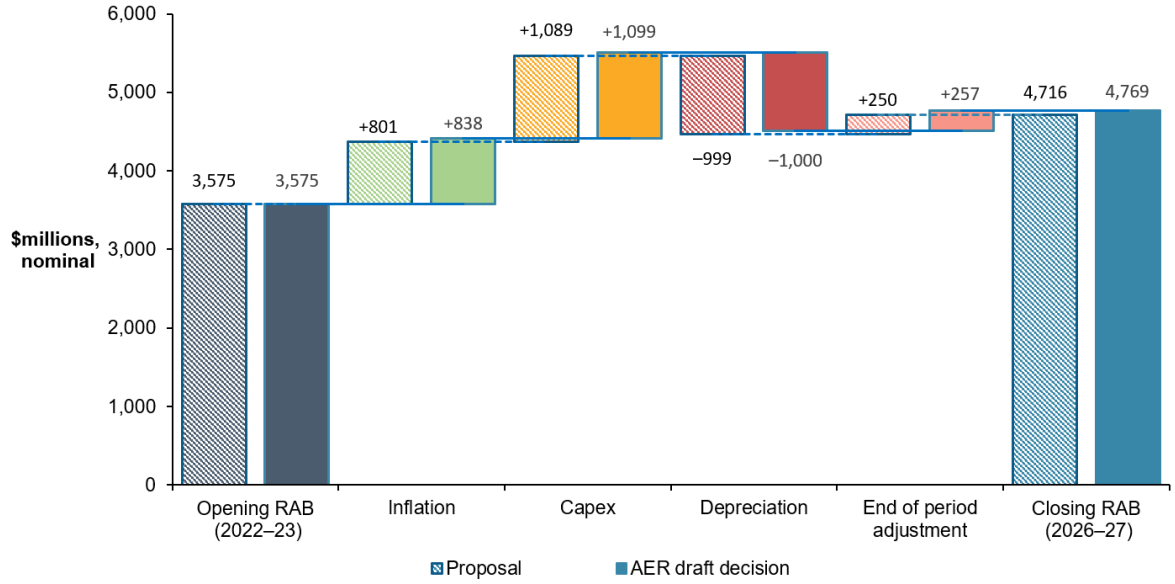
49 AusNet, *TRR 2027–32 Revenue Proposal,* October 2025, pp. 160-161.

50 This amount is a placeholder for the draft decision, reflecting the values provided by AusNet on 20 March 2026 (see: AusNet, *Response to AER information request #003–Treatment of SaaS costs for 2022–27,* dated 20 March 2026 and 2 June 2026). This value may be updated at the final decision stage, subject to AusNet resubmitting its regulatory accounts and AIO for the relevant years to reflect corrected treatment.

omitted from AusNet's proposal due to inconsistent treatment between annual reporting and the 2022–27 determination.[51]

Figure 1.4 shows the key drivers of change in AusNet's RAB value over the 2022–27 period for this draft decision. The closing RAB value at the end of the 2022–27 period is forecast to be 33.4% higher than the opening RAB at the start of that period, in nominal terms. The new net capex increases the RAB by 30.7%, while inflation indexation increases it by 23.5%. End of period adjustments also increase the RAB by 7.2%. Depreciation, on the other hand, reduces the RAB by 28.0%.

Figure 1.4 Key drivers of changes in the RAB over the 2022–27 period – AusNet's proposal compared with the AER's draft decision ($ million, nominal)



Source: AER analysis.
Note: Capex is net of forecast disposals. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

In the following sections we discuss our assessment of AusNet's proposed inputs in the RFM and the ex-post review of 2020–25 capex for RAB roll forward purposes.

Key inputs in the RFM

To determine the opening RAB for AusNet as at 1 April 2027, we have rolled forward the RAB over the 2022–27 period to determine a closing RAB value as at 31 March 2027. In doing so, we reviewed the key inputs of AusNet's proposed RFM, such as actual inflation, rate of return, gross capex values, asset disposal values, capital contribution values, forecast depreciation and asset lives. We found these inputs were generally correct and reconcile with relevant data sources such as ABS data, annual regulatory accounts, annual

[51] AusNet reported SaaS expenditure as opex for 2021–22 and the 2022–27 period, whereas it was treated as capex at the 2022–27 determination.

Information orders (AIOs) and the 2022–27 decision models.[52] However, we consider that some of AusNet's proposed RFM inputs require updating with newly available data and some require corrections. Therefore, we have made several amendments to AusNet's proposed RFM inputs, including CPI updates for 2025–26 and 2026–27, inclusion of SaaS capex and other minor corrections and updates.

We updated the CPI inputs for 2025–26 and 2026–27 in the RFM to reflect more recent data:

- We updated the actual CPI for 2025–26 to 3.24%, based on the September quarter 2025 CPI published by the Australian Bureau of Statistics (ABS), which became available after AusNet submitted its proposal. This compares with the estimated CPI of 2.55% adopted in AusNet's proposal.
- We updated the estimated CPI for 2026–27 to 3.20%,[53] reflecting the Reserve Bank of Australia (RBA)'s May 2026 Statement on Monetary Policy.[54] This compares with the estimated CPI of 3.00% adopted in AusNet's proposal. We will update this value with the actual CPI in our final decision.

We have amended both the as-incurred and as-commissioned gross capex inputs to include SaaS expenditure, which was omitted from AusNet's proposal due to inconsistent treatment between its annual reporting and the 2022–27 determination.[55] In its regulatory accounts for 2021–22 to 2023–24 and the AIO for 2024–25, AusNet reported SaaS expenditure as opex instead of capex following a change in accounting standards during the 2022–27 period. We consider that actual SaaS expenditure for this period should be treated as capex to maintain consistency with the 2022–27 determination. Accordingly, we have updated the 'IT' and 'In-house software' asset classes to include these costs. AusNet agreed with these changes and is in the process of resubmitting its annual reporting RINs and AIO for the relevant years to reflect the corrected treatment.

Table 1.7 sets out SaaS capex amounts for 2021–22 and the 2022–27 period. These are placeholder values for the draft decision, based on information provided by AusNet on 20 March 2026,[56] and may be updated at the final decision stage following resubmission of its regulatory accounts and AIO.[57]

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52 At the time of this draft decision, the roll forward of AusNet's RAB includes estimated capex values for 2025–26 and 2026–27. We expect to update the 2025–26 estimated capex with actuals in the final decision. We may also update the 2026–27 estimated capex with a revised estimate in the final decision.

53 This value reflects the average of the December 2026 and June 2027 inflation forecasts published in the RBA's May 2026 Statement of Monetary Policy.

54 RBA, *Statement on Monetary Policy, Table 3.2: Detailed Forecast Table,* May 2026, p. 64.

55 AusNet reported SaaS expenditure as opex for 2021–22 and the 2022–27 period, whereas it was treated as capex at the 2022–27 determination.

56 AusNet, *Response to AER information request #003–Treatment of SaaS costs for 2022–27*, dated 20 March 2026.

57 AusNet, *Response to AER information request #003–Treatment of SaaS costs for 2022–27*, dated 2 June 2026.

Table 1.7 SaaS capex for 2021–22 and the 2027–32 period ($ million, nominal)

SaaS capex	2021–22	2022–23	2023–24	2024–25	2025–26[a]	2026–27[b]	Total
As-incurred	1.3	0.9	0.6	0.5	3.4	3.4	10.1
As-commissioned	–	0.9	0.6	0.5	3.4	3.4	8.8

Source: AusNet, *Response to AER information request #003–Treatment of SaaS Costs Reconciliation*, dated 20 March 2026.

(a) Based on estimated capex provided by AusNet. We will update the RAB roll forward for actual capex in the final decision.

(b) Based on estimated capex provided by AusNet. We expect to update the RAB roll forward with a revised capex estimate in the final decision, and to true-up the RAB for actual capex in the 2032–37 determination.

We have also made the following minor input updates in the RFM:

- updated the 2024–25 as-incurred and as-commissioned gross capex inputs to correct the treatment of movements in provisions in the RFM, ensuring consistency with the AIO for this year. AusNet has agreed with this change in its response to our information requests[58]
- updated the 2026–27 estimated disposals to reflect updated CPI, consistent with AusNet's approach to estimating disposal values in the final year of the 2022–27 period.[59]

Growth asset roll-in

AusNet proposed to roll in $294.8 million of growth assets into the RAB as at 1 April 2027. The method applied by AusNet to calculate the roll-in value of these assets is broadly consistent with our RFM and the approach approved in previous determinations. Based on our review of the roll forward for growth assets, including testing key inputs against the terms of the contracts for the 5 largest projects[60], we are satisfied that the proposed roll-in approach is reasonable.

While we accept the method applied by AusNet, we updated the proposed roll-in amount to reflect actual March 2026 CPI and the latest estimated March 2027 CPI for indexation of the asset values. Accordingly, our draft decision is to roll in $299.2 million of growth assets into the RAB as at 1 April 2027. We also updated the remaining asset life for polymeric insulators to 33.7 years to correct an input error, as AusNet had applied the standard life rather than the remaining life. We expect AusNet to provide an updated amount in its revised proposal, reflecting actual capex for 2025–26 and updated estimates for 2026–27.[61]

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58 AusNet, *Response to AER information request #011–General modelling,* dated 15 January 2026.

59 AusNet, *TRR 2027–32 Roll Forward Model,* October 2025; This estimated value may be further updated to reflect the latest information in the revised proposal and final decision.

60 The total value of these 5 projects represents over 78% of the total value of the proposed roll-in value for growth assets. AusNet, *Response to AER information request #009–Concessional finance adjustment and growth assets,* dated 22 December 2025.

61 Any difference between the estimated and the actual value of the growth assets rolled in for the 2027–32 period, including the return on that difference, will be trued-up at the 2032–37 determination.

Other final year adjustments – Capitalised leases and legacy asset classes

We amended AusNet's proposed final year (end of period) adjustment amount to reflect our draft decision on the adjustment for capitalised leases and removal of legacy asset classes. The reasons for our decision are set out below.

We accept AusNet's proposed capitalised lease cost adjustment of –$13.2 million at the end of the 2022−27 period, updated based on the revised values provided by AusNet after the submission of its proposal.[62] This adjustment reflects changes to existing lease arrangements during the 2022–27 period, including lease modifications and terminations occurred during the period. We accept the adjustment because these changes cannot be appropriately reflected through the existing asset classes in the RFM, as those asset classes do not have suitable asset lives to capture the updated lease profile.[63] We are satisfied that the updated amount appropriately reflects the present value of AusNet's existing leases as at 1 April 2027.

AusNet proposed to remove 10 legacy asset classes, which has a total residual value of $0.9 million as at 1 April 2027, on the basis that these asset classes are largely depreciated and no longer used to allocate new capex. We agree in principle that asset classes should be removed where they are fully depreciated (or residual values are sufficiently immaterial) and no longer used for new capex. However, we consider that the total residual value remains material. Removal of these asset classes is therefore not appropriate at this stage. Instead, we reallocate the residual values to a separate new asset class, 'Removal of residual values', with a remaining life of 1 year (as discussed in section 1.3.4.2).[64] We consider this approach allows the residual values to be fully depreciated in the first year of the 2027–32 period, consistent with the principle of cost recovery. AusNet agreed with this approach in its response to our information request.[65] This amendment increased the opening RAB as at 1 April 2027 by $0.9 million.

Ex post review of 2020–25 capex

We consider the extent to which our roll forward of the RAB to 1 April 2027 contributes to the achievement of the capital expenditure incentive objective.[66] In the 2022–27 transmission determination, we noted that capex for 2020–21 and 2021–22 would form part of the review period for assessing whether past capex should be excluded for inefficiency reasons in this determination.[67] Capex for 2022–23 to 2024–25 also forms part of this review period.

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62 AusNet's revised capitalised lease values is $0.02 million higher than its proposal. Therefore, when rounded to 1 decimal place, the draft decision capitalised lease adjustment of –$13.2 million is the same as AusNet's proposed amount. AusNet, *Response to information request #011–General modelling,* dated 15 January 2026.

63 AusNet, *Response to information request #011–General modelling,* dated 15 January 2026.

64 We have also updated the residual value to reflect updated CPI, which has slightly increased the total residual value.

65 AusNet, *Response to information request #011–General modelling,* dated 15 January 2026.

66 NER, cll. 6A.14.2(b) and 6A.5A(a).

67 AER, *Final decision: AusNet Services transmission determination 2022–27 – Attachment 2 – Regulatory asset base,* January 2022, p. 8.

Consistent with the requirements of the NER, we have excluded the final 2 years of the 2022–27 period from this review.[68] This ensures that actual capex, rather than estimated capex, is available when the review is undertaken.

As discussed in Attachment 2, AusNet's total actual capex incurred from 2020–21 to 2024–25 is below the forecast allowance set in the 2017–22 and 2022–27 determinations. Accordingly, the overspending threshold for an efficiency review of past capex has not been met.[69]

For this draft decision, we have included estimated capex for 2025−26 and 2026–27 in the RAB roll forward to 1 April 2027. At the next determination, this capex will form part of the review period for assessing whether past capex should be excluded for inefficiency reasons.[70]

Our RAB roll forward applies the incentive framework approved in the 2022–27 determination, including the use of a forecast depreciation approach and the application of the CESS.[71] We therefore consider that the 2022–27 RAB roll forward results in an opening RAB as at 1 April 2027 that reflects prudent and efficient capex, consistent with the capex criteria.[72]

1.2.4.2 Forecast closing RAB as at 31 March 2032

We forecast a closing RAB of $5,889.3 million ($ nominal) by 31 March 2032 for AusNet, a reduction of $773.7 million (11.6%) relative to its proposed $6,663.0 million ($ nominal). This reflects our draft decision on the inputs used to determine the forecast RAB in the PTRM.

The change in the RAB over the 2027–32 period reflects our assessment of key components including forecast depreciation (section 1.3), expected inflation (Overview section 2.2) and forecast capex (Attachment 2). Inflation and capex increase the RAB, while depreciation and disposals reduce it.

To determine the forecast RAB, we amended the following PTRM inputs:

- increased the opening RAB as at 1 April 2027 by $53.1 million (1.1%) (section 1.2.4.1)
- reduced the expected inflation rate from 2.62% per annum to 2.45% per annum (Overview section 2.2), decreasing indexation of the RAB by $87.9 million (11.8%) over the 2027–32 period[73]

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68 NER, cl. S6A.2.2A(a1).

69 NER, cl. S6A.2.2A(c).

70 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*, July 2024, pp. 12–19.

71 AER, *Final decision: AusNet Services transmission determination 2022–27 – Attachment 2 – Regulatory asset base,* January 2022, p. 11.

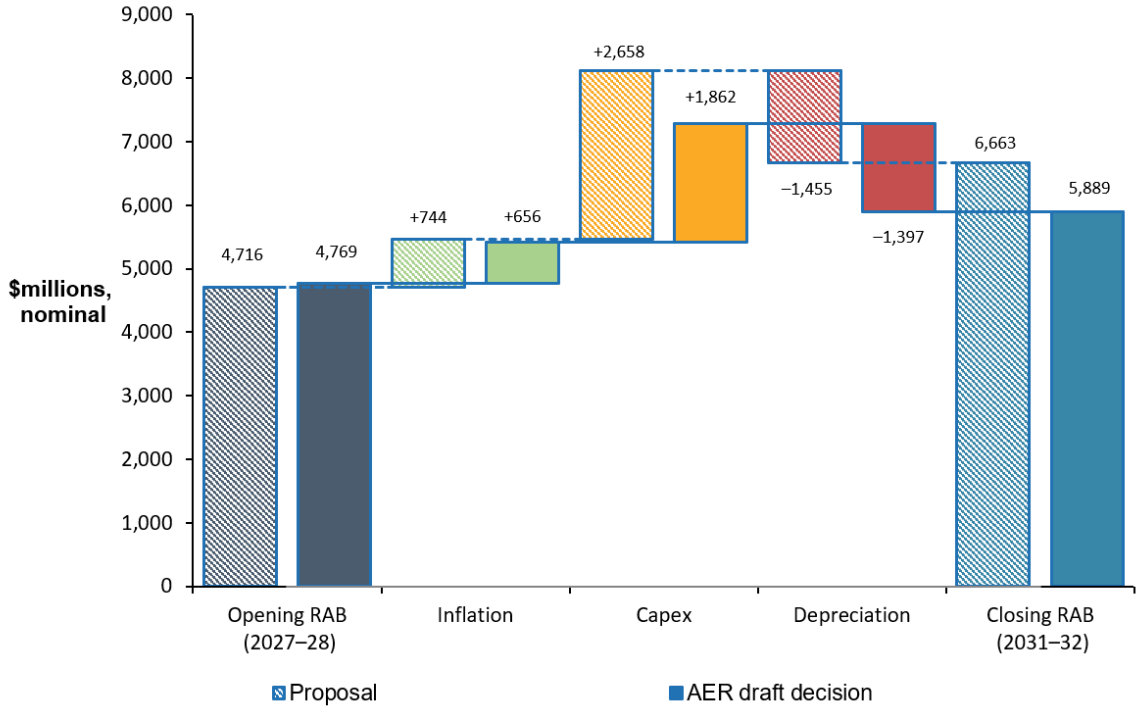
72 NER, cll. 6A.5A(a), 6A.6.7(c) and 6A.14.2(b).

73 The reduction in the indexation of the RAB is largely due to the lower expected inflation rate and opening RAB value determined in our draft decision.

- reduced AusNet's proposed forecast capex for the 2027–32 period by $796.0 million (30.0%)[74] (Attachment 2). Forecast net capex is a key driver of RAB growth over the 2027–32 period
- reduced forecast straight-line depreciation by $57.2 million (3.9%) (section 1.3).

Figure 1.5 shows the key drivers of the change in AusNet's RAB over the 2027–32 period. Overall, the closing RAB value is forecast to be 23% higher than the opening RAB in nominal terms. Forecast net capex increases the RAB by 39%, while expected inflation increases it by 14%. Forecast depreciation reduces the RAB by 29%.

Figure 1.5 Key drivers of changes in the RAB over the 2027–32 period – AusNet's proposal compared with the AER's draft decision ($ million, nominal)



Source: AER analysis.
Note: Capex is net of forecast disposals. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

1.2.4.3 Application of depreciation approach in RAB roll forward for the next transmission determination

We determine that the depreciation approach to establish AusNet's opening RAB at the commencement of the 2032–37 period will be based on the depreciation schedules (straight-line) using forecast capex at the asset class level approved for the 2027−32 period. We consider this approach will provide sufficient incentives for AusNet to achieve capex efficiency gains over the 2027–32 period.[75]

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74 Capex is net of forecast disposals and customer contributions, and inclusive of half-year WACC adjustment.

75 NER, cll. 6A.14.1(5E) and S6A.2.2B.

AusNet's proposal did not specify what depreciation approach to be applied in rolling forward of the RAB for the 2032–37 period. We consider that a forecast depreciation approach should be used to establish the opening RAB as at 1 April 2032, consistent with the final F&A.[76]

We have applied forecast depreciation when rolling forward the opening RAB at the commencement of the 2027–32 period (section 1.2.4.1). Applying the same approach for the 2032–37 period therefore maintains consistency with our current approach.

As discussed in Attachment 6, AusNet is subject to the CESS for the 2022–27 period, and this will continue over the 2027–32 period. We consider that the CESS will provide sufficient incentives for AusNet to achieve capex efficiency gains over that period. We are satisfied that the CESS, together with the use of a forecast depreciation approach and other ex-post capex measures, provides sufficient incentives to achieve the capex incentive objective.[77]

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 AusNet, we make determinations on the indexation of the RAB and depreciation building blocks for AusNet's 2027–32 period.[78] The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

This section sets out our draft decision on the regulatory depreciation amount for AusNet's transmission network. It also presents our draft decision on the proposed depreciation schedules, including an assessment of the proposed standard asset lives used for calculating straight-line depreciation.

1.3.1 Draft decision

We determine a regulatory depreciation amount of $741.8 million ($ nominal) for AusNet for the 2027–32 period. This is $30.8 million (4.3%) higher than AusNet's proposed $711.0 million ($ nominal)[79], primarily due to our draft decision on a lower expected inflation[80], which reduces indexation on the RAB[81], and a higher opening RAB (section 1.2), which increases

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76 AER, *Final framework and approach for AusNet Services transmission determination 2027–32*, April 2025, p. 7.

77 Our ex-post capex measures are set out in the capex incentives guideline, AER, *Capital expenditure incentive guideline for electricity network service providers*, August 2025, pp. 17–22. The guideline also sets out how all our capex incentive measures are consistent with the capex incentive objective.

78 Under cl. 6A.5.4 of the NER, the annual building block revenue requirement for a Transmission Network Service Provider for each regulatory year of a regulatory control period must be determined using a building blocks approach, under which one of the building blocks is depreciation for that year. The depreciation for each regulatory year must be calculated in accordance with cl. 6A.6.3 of the NER.

79 AusNet, *TRR 2027–32 Revenue proposal*, October 2025, p. 167; AusNet, *TRR 2027–32– Post Tax Revenue Model*, October 2025.

80 Our draft decision expected inflation rate is 2.45% per annum, compared to AusNet's proposed 2.62% per annum (Overview section 2.2).

81 Regulatory depreciation is calculated as straight-line depreciation less indexation of the RAB. A lower expected inflation rate reduces indexation of the RAB and therefore increases regulatory depreciation, all else being equal.

straight-line depreciation. This is partly offset by our lower forecast capex (Attachment 2), which reduces straight-line depreciation.[82]

Overall, our draft decision has reduced:

- straight-line depreciation by $57.2 million (3.9%)
- indexation of the RAB by $87.9 million (11.8%).

As the reduction in indexation of the RAB exceeds the reduction in straight-line depreciation, regulatory depreciation is higher than AusNet's proposal.

For our draft decision on AusNet's regulatory depreciation:

- We accept AusNet's proposed straight-line depreciation method for calculating the regulatory depreciation amount.
- We accept AusNet's proposal to continue applying the year-by-year tracking approach to calculate straight-line depreciation of its existing assets and forecast capex (section 1.3.4.1).
- We accept AusNet's proposed asset classes and standard asset lives, except for the standard asset life for the 'Equity raising costs' asset class (section 1.3.4.2).
- We introduce a new asset class 'Removal of small residuals' with a standard life of 1 year to depreciate the residual values of legacy asset classes (section 1.3.4.2).

We also made determinations on other components of AusNet's proposal that affect forecast regulatory depreciation, including the opening RAB as at 1 April 2027 (section 1.2), expected inflation (Overview section 2.2), and forecast capex (Attachment 2), and their effect on the projected RAB over the 2027–32 period.[83]

Table 1.8 sets out our draft decision on the annual regulatory depreciation for the 2027–32 period.

Table 1.8 AER's draft decision on AusNet's regulatory depreciation for the 2027–32 period ($ million, nominal)

	2027–28	2028–29	2029–30	2030–31	2031–32	Total
Straight-line depreciation	238.3	262.6	283.6	296.1	316.9	1,397.4
Less: inflation indexation on opening RAB	116.9	125.8	133.7	137.8	141.5	655.6
Regulatory depreciation	**121.5**	**136.8**	**149.9**	**158.2**	**175.4**	**741.8**

Source: AER analysis.

82 While lower forecast capex reduces both straight-line depreciation and indexation of the RAB over 2027–32 period, the net impact is a reduction in regulatory depreciation, all else being equal.

83 Capex enters the RAB net of forecast disposals. It includes equity raising costs (where relevant) and a half-year WACC to reflect the timing assumptions in the PTRM. Our draft decision on the RAB (section 1.2) also reflects the updated WACC for the 2027–32 period.

1.3.2 Overview of proposal

AusNet proposed a regulatory depreciation amount of $711.0 million ($ nominal) for the 2027–32 period. To calculate this amount, AusNet proposed to use:[84]

- the straight-line depreciation method employed in the AER's PTRM
- the closing RAB value as at 31 March 2027 derived from the AER's RFM
- its proposed forecast capex for the 2027–32 period
- an expected inflation rate of 2.62% per annum
- the AER's year-by-year tracking depreciation module in the RFM to calculate the forecast straight-line depreciation of the opening RAB at 1 April 2027
- the same asset classes and standard asset lives for depreciating its forecast capex for the 2027–32 period as those approved in the 2022–27 determination, except for the 'Equity raising costs' asset class
- 2 new asset classes for the 2027–32 period: 'Head Office Leases' and 'Leases L&B – Short Lives', with proposed standard asset lives of 6.1 years and 10.2 years, respectively.

AusNet's proposal sets out the details of its regulatory depreciation for the 2026–31 period.[85]

1.3.3 Assessment approach

Appendix A.3 sets out our assessment approach for regulatory depreciation.

1.3.4 Reasons for draft decision

We accept AusNet's proposed straight-line depreciation method for calculating regulatory depreciation as set out in the PTRM. However, we have increased AusNet's proposed regulatory depreciation amount for the 2027–32 period by $30.8 million (4.3%) to $741.8 million ($ nominal).

This increase is primarily driven by our draft decision to adopt a lower expected inflation rate of 2.45% per annum for the 2027–32 period compared to AusNet's proposal of 2.62% (Overview section 1.2), which reduces indexation on the RAB.[86] Our draft decision also results in a higher opening RAB at 1 April 2027 (section 1.2), which increases straight-line depreciation. This is partly offset by our lower forecast capex (Attachment 2), which reduces straight-line depreciation.[87] We have also made other amendments to inputs in the year-by year tracking depreciation module, which further affect the regulatory depreciation outcome.

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84 AusNet, *TRR 2027–32 Roll Forward Model*, October 2025; AusNet, *TRR 2027–32 Depreciation Tracking Model*, October 2025; AusNet, *TRR 2027–32 Post Tax Revenue Model*, October 2025.

85 AusNet, *Transmission Revenue Reset 2027–32 Revenue Proposal – PUBLIC*, October 2025, pp. 167–171.

86 Regulatory depreciation is calculated as straight-line depreciation less indexation of the RAB. A lower expected inflation rate reduces indexation of the RAB and therefore increases regulatory depreciation, all else being equal.

87 While lower forecast capex reduces both straight-line depreciation and indexation of the RAB over 2027–32 period, the net impact is a reduction in regulatory depreciation, all else being equal.

In the following sections, we discuss our assessment of AusNet's proposal to continue using the year-by-year tracking depreciation approach, its proposed new asset classes and standard asset lives, and our draft decision to introduce a new 'Removal of small residuals' asset class.

1.3.4.1 Year-by-year tracking approach

AusNet proposed to continue using the year-by-year tracking approach for calculating the straight-line depreciation of its existing assets, consistent with that approved for its previous periods.[88] We consider that this approach meets the requirements of the NER, as it results in depreciation schedules that:[89]

- reflect the nature of the assets and their economic life
- ensure that total depreciation (in real terms) equals the initial value of the assets
- are consistent with the economic lives determined in previous determinations.

AusNet used our depreciation module in the RFM to implement this approach. We have reviewed its application and updated the inputs to reflect the relevant amendments to the RFM, as discussed in section 1.2.4.1.

1.3.4.2 Standard asset lives

We accept AusNet's proposed standard asset lives for the majority of its existing asset classes, except for the 'Equity raising costs' asset class. This is because the proposed asset lives are consistent with those approved for the 2022–27 period and are broadly comparable with those used by other network businesses for similar asset classes.

We have removed the standard asset life for 'Equity rising costs' from the PTRM as no equity raising costs are forecast for the 2027–32 period. We also accept AusNet's proposed 2 new asset classes for capitalised leases and their standard asset lives. In addition, we introduce a new asset class, 'Removal of Small Residuals', with a standard asset life of 1 year to depreciate the residual values from legacy asset classes. Our reasons on these decisions are discussed below.

Equity raising costs

The standard asset life for the 'Equity raising costs' asset class is reviewed each period and reflects the weighted average life of the assets comprising the approved forecast net capex.[90]

AusNet proposed a standard asset life of 38.4 year for this asset class, reflecting the weighted average life of its forecast capex over the 2027–32 period.[91] However, no equity

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88 AusNet, *Transmission Revenue Reset 2027–32 Revenue Proposal – PUBLIC*, October 2025, pp. 167 and 168.

89 NER, cl. 6A.6.3(b).

90 For this reason, we use forecast net capex as weights to calculate the weighted average standard asset life for equity raising costs.

91 AusNet, *Transmission Revenue Reset 2027–32 Revenue Proposal*, October 2025, pp. 169–170. Equity raising costs standard asset life is based on the weighted average life of AusNet's forecast capex over the 2027–32 period.

raising costs are included in our draft decision, as AusNet does not meet the requirements to incur benchmark equity raising costs associated with the approved forecast capex. Accordingly, we amended the standard asset life for this asset class to 'n/a' (not applicable) in the PTRM for this draft decision.

New asset classes for capitalised leases for the 2027–32 period

We accept AusNet's proposed 2 new asset classes for capitalised leases and the associated standard asset lives for the 2027–32 period:

- **Head Office Leases**: This asset class captures the capitalised cost of leases for AusNet's head offices in the CBD area, with a standard asset life of 6.1 years.
- **Leases L&B – Short lives**: This asset class captures the capitalised cost of leases with short lives, excluding head office leases, with a standard asset life of 10.2 years.

We have assessed AusNet's supporting information and are satisfied that the proposed standard asset lives reflect the weighted average of the remaining lease terms. These new asset classes replace multiple lease-related asset classes that were previously defined on a year-by-year basis across 2022–23 to 2026–27. We consider this approach improves transparency by consolidating lease costs into clearly defined categories and assigning standard asset lives that better reflect the underlying lease terms.

New 'Removal of small residuals' asset class

AusNet proposed to remove 10 legacy asset classes,[92] as these assets are largely depreciated and are no longer used to allocate new capex. As discussed in section 1.2.4.1, we consider that the residual values remain material and should not be removed from the RAB. Accordingly, we introduce a new asset class, 'Removal of small residuals', to depreciate the residual values of these legacy asset classes. We assign a standard asset life of 1 year so that these values are fully depreciated in the first year of the 2027–32 period. AusNet agreed with this approach in its response to our information request.[93]

Our draft decision PTRM sets out AusNet's standard asset lives for each asset class over the 2027–32 period.[94] We note that the asset classes assigned a standard asset life of 'n/a' (not applicable) are those where allocated capex is either not subject to depreciation or where no forecast capex is allocated. We are satisfied that our draft decision on depreciation conforms with the NER because:[95]

- the standard asset lives and depreciation approach more broadly 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

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92 These asset classes are 'Inventory Adjustment (Other non-network)', 'Accelerated Depr', 'Insulators - Already Decommissioned, 'Insulators - Decommission 2022–2027', 'Instrument Transformers - Already Decommissioned', 'Instrument Transformers - Decommission 2022–2027', 'Lease L&B 2022–23', 'Lease L&B 2023–24', 'Lease L&B 2025–26' and 'Lease L&B 2026–27'.

93 AusNet, *Response to AER information request #011–General modelling,* dated 15 January 2026.

94 AER, *Draft decision - AusNet Services transmission determination 2027–32 - PTRM*, June 2026.

95 NER, cll. 6A.6.3(b)(1)–(3).

- the asset lives, the depreciation methods and rates underpinning the calculation of depreciation, are consistent with those determined for the same assets on a prospective basis.

1.4 Corporate income tax

Our determination of the annual building block revenue requirement includes the estimated cost of corporate income tax for AusNet's 2027–32 period.[96] 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 AusNet to recover the costs associated with the estimated corporate income tax payable during the 2027–32 period.

This section presents our assessment of AusNet's corporate income tax amount over the 2027–32 period. It also assesses the key inputs used to calculate that amount, including the opening tax asset base (TAB), forecast immediately expensed capex and standard tax asset lives used to estimate tax depreciation.

1.4.1 Draft decision

We determine an estimated cost of corporate income tax amount of $51.4 million ($ nominal) for AusNet over the 2027–32 period. This is $23.3 million (82.6%) higher than AusNet's proposed cost of corporate income tax amount of $28.2 million. This increase is primarily due to our draft decision on a higher return on equity and higher regulatory depreciation, which increase taxable income. This increase is also driven by lower tax depreciation, due to lower forecast capex and lower immediately expensed capex, which increases taxable income and therefore the corporate income tax amount.

For our draft decision on AusNet's estimated cost of corporate income tax:

- We determine an opening TAB value of $3,214.9 million ($ nominal) as at 1 April 2027 for AusNet. This is $7.1 million (0.2%) higher than AusNet's proposed opening TAB of $3,207.8 million.[97] This increase is driven by our draft decision to treat SaaS expenditure as capex for the 2022–27 period, and by our amendments to actual capex and disposal inputs in the RFM, consistent with our approach for RAB roll forward (section 1.4.4.1). We also accept AusNet's proposed final year adjustments for TAB roll forward, including the roll-in of growth assets, capitalised leases and removal of legacy asset classes, with minor changes consistency with our RAB roll forward (section 1.4.4.1).
- We accept AusNet's proposed approach to forecasting immediately expensed capex. However, we have updated the forecast amount to reflect our draft decision on the total forecast capex. This results in forecast immediately expensed capex of $69.1 million for the 2027–32 period, which is $14.4 million lower than AusNet's proposal (section 1.4.4.2).
- We accept AusNet's proposal to exempt forecast capex associated with buildings and in-house software from the diminishing value tax depreciation method for the 2027–32

96 NER, cl. 6A.5.4(a)(4).

97 AusNet, *TRR 2027–32 Post-Tax Revenue Model*, October 2025.

period. This maintains the approach approved in the 2022–27 determination of applying the straight-line tax depreciation method to these assets (section 1.4.4.3).

- We accept AusNet's proposed change to using the year-by-year depreciation tracking method, as set out in our depreciation module in the RFM, to calculate forecast tax depreciation for its existing assets (section 1.4.4.4).
- We accept AusNet's proposed standard tax asset lives for its existing asset classes for the 2027–32 period. The proposed standard tax asset lives are broadly consistent with the tax asset lives prescribed by the Commissioner of Taxation in Australian Taxation Office (ATO) Legislative Instrument 2025/20 and/or are the same as the approved standard tax asset lives for the 2022–27 period (section 1.4.4.5).[98]
- We accept the proposed standard tax lives for the new 'Head Office Leases' and 'Leases L&B – short lives' asset classes of 6.1 years and 10.2 years, respectively. We consider these lives are reasonable because they reflect the weighted average of the remaining lease terms (section 1.4.4.5).
- We introduce a separate 'Removal of small residuals' asset class with a standard tax life of 1 year. This allows the small residual values from legacy asset classes to be fully depreciated for tax purposes, consistent with the approach for regulatory depreciation (section 1.4.4.5).

Our draft decisions on the return on capital (section 1.2, Attachment 2 and Overview section 2.2) and the regulatory depreciation (section 1.3) building blocks affect AusNet's estimated taxable income and therefore the calculation of the cost of corporate income tax.

1.4.2 Overview of proposal

AusNet proposed an estimated cost of corporate income tax of $28.2 million for the 2027–32 period, calculated using the PTRM[99] and the following inputs:[100]

- an opening TAB of $3,207.8 million ($ nominal) as at 1 April 2027
- an expected statutory income tax rate of 30% per annum
- a value of imputation credits (gamma) of 0.57
- forecast immediately expensed capex of $83.5 million ($2026–27)
- tax depreciation of the opening TAB as at 1 April 2027 for each asset class, applying the year-by-year tracking approach calculated in the depreciation module of the RFM, with a commencement date of 2022–23
- the same standard tax asset lives for tax depreciation purposes for new capex in its existing asset classes as those approved for the 2022–27 determination

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

99 Our published electricity PTRM uses the diminishing value tax depreciation approach for all new assets with the exception of in-house software, buildings (capital works) and equity raising costs. All assets acquired prior to 1 April 2022 will continue to be depreciated using the straight-line depreciation method for regulatory tax purposes, until these assets are fully depreciated. The PTRM also allows for the immediate expensing of certain capex for tax purposes.

100 AusNet, *TRR 2027–32 Post-Tax Revenue Model–31 Oct 2025–PUBLIC*, October 2025.

- standard tax asset lives of 6.1 years and 10.2 years for the proposed new 'Head Office Leases' and 'Leases L&B – short lives' asset classes, respectively.

AusNet's proposal sets out the details of its estimated cost of corporate income tax over the 2026–31 period.[101]

1.4.3 Assessment approach

Appendix A.4 sets out our assessment approach for the estimated cost of corporate income tax.

1.4.4 Reasons for draft decision

Our draft decision determines an estimated cost of corporate income tax amount of $51.4 million for AusNet over the 2027–32 period. This is $23.3 million (or 82.6%) higher than AusNet's proposal of $28.2 million. We note that a forecast tax loss of $8.0 million is carried forward at the start of the 2027–32 period. This offsets taxable income in the early years of the period and is fully utilised by the end of 2031–32.[102] We discuss the reasons for our draft decision in the following sections, including our assessment of:

- the opening TAB as at 1 April 2027
- the forecast immediately expensed capex
- assets exempted from the diminishing value method for tax depreciation
- the year-by-year tracking approach for tax depreciation
- the standard tax asset lives used for depreciating forecast capex over the 2027–32 period.

Our draft decisions on AusNet's return on capital (section 1.2, Attachment 2 and Overview section 2.2) and regulatory depreciation (section 1.3) building blocks also affect the forecast cost of corporate income tax by affecting AusNet's estimated taxable income.

1.4.4.1 Opening tax asset base as at 1 April 2027

We accept AusNet's proposed method to establish the opening TAB as at 1 April 2027. AusNet's proposed approach is based on our RFM and is consistent with the approach approved for the 2022–27 period.

Based on this approach, we determine AusNet's opening TAB as at 1 April 2027 to be $3,214.9 million ($ nominal). This is $7.1 million (0.2%) higher than AusNet's proposed opening TAB of $3,207.8 million, mainly reflecting our amendments to align the TAB roll forward with the RFM changes discussed in section 1.2.4.1. These amendments include the treatment of SaaS expenditure as capex, updates to capex values to align with the 2024–25

101 AusNet, *TRR 2027–32 Revenue Proposal*, October 2025, pp. 176–182; AusNet, *TRR 2027–32 Post-Tax Revenue Model–31 Oct 2025–PUBLIC*, October 2025.

102 This forecast tax loss includes the impact of the 2024 February storms cost pass through and Phasor Measurement Unit cost pass through. It also accounts for the 2026–27 return on debt update.

AIO, updated estimated disposals, updated tax depreciation outputs, and final year adjustments associated with capitalised lease[103] and legacy asset classes.[104]

Consistent with our draft decision on the RAB roll forward (section 1.2.4.1), we accept AusNet's proposal to roll growth assets into the opening TAB and accept its proposed roll-in amount of $237.0 million.[105] We note that AusNet's TAB roll forward for growth assets does not require an equivalent CPI-related true-up to the one applied in the RAB roll forward. This is because the TAB growth asset roll-in value is not subject to CPI indexation.

We will update the opening TAB value as at 1 April 2027 as part of the final decision to reflect actual 2025–26 capex, and any revised 2026–27 capex estimates and any associated updates to final year adjustments.

Table 1.9 sets out the roll forward of AusNet's TAB over the 2022–27 period under our draft decision.

Table 1.9 AER's draft decision on AusNet's TAB roll forward for the 2022–27 period ($ million, nominal)

	2022–23	2023–24	2024–25	2025–26	2026–27
Opening TAB[a]	2,815.4	2,749.3	2,689.3	2,628.9	2,733.5
Capital expenditure[b]	102.4	97.1	129.7	272.6	449.2
Less: tax depreciation	168.6	157.1	190.1	168.0	193.6
Final year asset adjustment (excluding growth assets)[c]	-	-	-	-	11.2
Growth assets roll-in[d]	-	-	-	-	237.0
Closing TAB	**2,749.3**	**2,689.3**	**2,628.9**	**2,733.5**	**3,214.9**

Source: AER analysis.

(a) Based on estimated capex provided by AusNet. We will update the TAB roll forward for actual capex for 2025–26 and a revised capex estimate for 2026–27 in the final decision, and to true-up the TAB for actual capex for 2026–27 in the next determination.

(b) As-commissioned, net of disposals.

(c) Includes final year asset adjustments for capitalised lease costs and the removal of small residuals from legacy asset classes.

103 We updated the proposed adjustment, based on updated information provided by AusNet after the submission of its proposal.

104 We have reallocated a total residual value of $0.01 million from the 'Insulators – Decommission 2022–2027', 'Instrument Transformers – Decommission 2022–2027' and 'Lease L&B 2026–27' asset classes to a separate new 'Removal of small residuals' asset class and assigned a TAB remaining life of 1 year.

105 The TAB growth asset roll-in value is not subject to CPI indexation. Accordingly, unlike the RAB roll-in amount, we have not updated AusNet's proposed growth asset roll-in amount for CPI in this draft decision. We also expect AusNet to provide an updated amount in its revised proposal, reflecting actual capex for 2025–26 and updated estimates for 2026–27. We expect that any difference between the estimated and the actual value of the growth assets rolled in for the 2027–32 period will be trued-up at the next determination.

(d) Roll-in of growth assets at 1 April 2027, including the true-up for the difference between estimated and actual growth assets rolled in at the 2022–27 determination. We expect AusNet to provide an updated amount in its revised proposal, reflecting actual capex for 2025–26 and updated estimates for 2026–27. Any true-up for 2026–27 actual capex will be applied at the next determination.

1.4.4.2 Forecast immediately expensed capex

We accept AusNet's proposed approach to forecasting immediately expensed capex for the 2027–32 period. However, we have updated the forecast amount to $69.1 million ($2026–27), which is $14.4 million lower than AusNet's proposal of $83.5 million.[106] This reflects our draft decision to reduce AusNet's total forecast capex, as discussed in Attachment 2.

AusNet's forecast immediately expensed capex for the 2027–32 period consists of capitalised overheads, calculated on an as-incurred basis.[107] We accept this approach because it is consistent with the approach approved in our 2022–27 determination for this type of expenditure.

AusNet's actual immediately expensed capex for the 2022–27 period reflects a hybrid approach, where:[108]

- direct project expenditure relating to government requested asset relocations and restoration of network assets damaged by extreme weather events is claimed on an as-commissioned basis[109]
- capitalised overheads to be immediately expensed are claimed on an as-incurred basis.

This hybrid approach for the 2022–27 period is supported by the ATO's private ruling for AusNet's direct project expenditure relating to government-requested asset relocations and restoration of network assets damaged by extreme weather events, including the 2024 Anakie towers collapse cost pass-through.[110] We note that this hybrid approach applies only to actual immediately expensed capex for the 2022–27 period. For the 2027–32 period, AusNet's forecast immediately expensed capex consists only of capitalised overheads, calculated on an as-incurred basis.

AusNet's proposed immediately expensed capex represents about 4% of its total proposed forecast capex for the 2027–32 period. This is broadly consistent with the average proportion of capex expected to be immediately expensed over the 2022–27 period, which is about 5%.

We will continue to collect actual data on immediately expended capex through AIOs to inform our assessment in AusNet's next determination.

1.4.4.3 Assets exempt from the diminishing value method

The PTRM applies the diminishing value method as the regulatory benchmark for tax depreciation of new capex. However, as discussed in Appendix A.4, some assets are exempt from this method under the tax law, including in-house software, buildings (capital works) and

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106 AusNet, *TRR 2027–32 Post-Tax Revenue Model*, October 2025.

107 AusNet, *TRR 2027–32 Revenue Proposal*, October 2025, p. 181.

108 AusNet, *TRR 2027–32 Revenue Proposal*, October 2025, p. 181.

109 This includes capex under the approved February 2024 cost pass through.

110 AusNet, *TRR 2027–32 Revenue Proposal*, October 2025, p. 181.

equity raising costs.[111] In the PTRM, benchmark equity raising costs are calculated within the model and depreciated using the straight-line method by default.

AusNet proposed that forecast capex associated with buildings (capital works) and in-house software for the 2027–32 period be exempted from the diminishing value method. For the reasons discussed in Appendix A.4.2, we accept AusNet's proposal because this forecast capex satisfies the relevant definitions under tax law.[112] These assets will therefore continue to be depreciated using the straight-line method for tax purposes, consistent with the approach applied in the 2022–27 determination.

1.4.4.4 Year-by-year tracking approach

We accept AusNet's proposed change to use the year-by-year tracking method, as set out in our depreciation module in the RFM, to calculate tax depreciation for its existing assets in the TAB as at 1 April 2027.[113]

This represents a change from the weighted average remaining life approach adopted in the 2022–27 determination.[114] The change is necessary because the diminishing value method, implemented following the 2018 tax review, requires tax depreciation to be calculated separately for capex incurred in each year of the regulatory control period.[115] The weighted average remaining life approach does not allow this year-by-year calculation.

Accordingly, AusNet must use the year-by-year tracking method to correctly calculate tax depreciation for existing assets in the opening TAB. As a result, there will be no longer be a single set of remaining tax asset lives for each asset class at the start of the 2027–32 period.

For this draft decision, we amended some inputs in the depreciation module to align with the RFM input amendments discussed in section 1.3.4.1. With these amendments, we are satisfied that applying the year-by-year tracking method provides an appropriate estimate of tax depreciation for a benchmark efficient service provider, consistent with the NER.[116]

1.4.4.5 Standard tax asset lives

We accept AusNet's proposed standard tax asset lives for its existing asset classes because they are:

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111 Asset classes 47, 48, 49 and 50 in the PTRM provide for this.

112 ATO, *Taxation Ruling 2016/3*, October 2018; ATO, *Taxation Ruling 97/25*, July 2017; ITAA, section 995-1; ITAA, section 43-20.

113 AusNet*, Transmission Revenue Reset 2027–32 Revenue Proposal - PUBLIC*, October 2025, p. 176. Under this approach, the capex for each year of a regulatory control period is depreciated individually for tax purposes. It will result in each tax asset class having an expanding list of sub-assets to reflect the regulatory year in which capital expenditures on those assets occurred.

114 AER, *Final decision: AusNet Services transmission determination 2022–27 – Attachment 7–Corporate income tax*, January 2022, p. 8. The weighted average remaining life method calculates the remaining tax asset life at the end of the regulatory control period by weighting together the remaining tax asset life at the start of that period with the capex incurred over that period.

115 AER*, Explanatory statement, Electricity transmission and distribution network service providers, Proposed amendments to the roll forward models (Distribution–version 3) (Transmission–version 4),* December 2019, pp. 18–20.

116 Clause 6A.6.4 of the NER sets out the formula we must apply to estimate the cost of corporate income tax. Under that formula, we must estimate the taxable income of a benchmark efficient entity.

- broadly consistent with the tax asset lives prescribed by the Commissioner of Taxation in ATO Legislative Instrument 2025/20[117]
- the same as the approved standard tax asset lives for the 2022–27 period.

We also accept AusNet's proposed standard tax asset lives for its proposed new asset classes for leases as below:

- 6.1 years for the 'Head Office Leases' asset class
- 10.2 years for the 'Leases L&B – short lives' asset class.

For the reasons discussed in section 1.3.4.2, our draft decision is to accept the new 'Head Office Leases' and 'Leases L&B – short lives' asset classes. We consider the proposed tax lives are appropriate because they reflect the weighted average remaining lease terms, which is a reasonable proxy for the period over which the lease-related assets are expected to provide taxable economic benefits. This is consistent with ATO guidance on determining the effective life of an asset.[118]

As discussed in section 1.3.4.2, our draft decision is to introduce a new 'Removal of small residuals' asset class to depreciate the residual values from legacy asset classes. We consider these residual values should be allocated to a separate asset class and depreciated, rather than directly removed from the TAB as proposed by AusNet, consistent with our approach for the RAB. For tax depreciation purposes, we have assigned a standard tax asset life of 1 year to this new asset class. AusNet has agreed to this amendment in its response to our information request.[119]

Our draft decision PTRM sets out AusNet's standard asset lives for each of its asset classes over the 2027–32 period.[120] Asset classes assigned a standard tax asset life of 'n/a' (not applicable) are either not subject to tax depreciation or have no forecast capex allocated to them.

We are satisfied that the standard tax asset lives are appropriate for the 2027–32 period and provide a reasonable basis for estimating tax depreciation, consistent with the tax expenses used to estimate the annual taxable income of a benchmark efficient service provider.[121]

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

118 ATO, *Legislative Instrument LI 2025/20–Schedule 2–Effective Life Tables A and B*, October 2025; ITAA, section 40-105.

119 AusNet, *Response to information request #011–General modelling,* dated 15 January 2026.

120 AusNet, *TRR 2027–32 Post-Tax Revenue Model*, October 2025.

121 NER, cl. 6A.6.4.

A Appendix

A.1 Maximum allowed revenue – assessment approach

The annual building block revenue requirement must be determined using a building block approach.[122] Therefore, we adopt a building block approach when making our decision on the TNSP's total revenue cap and expected MAR for each regulatory year of the regulatory control period. Under this approach, we determine the value of the building block costs that make up the annual building block revenue requirement for each regulatory year. The annual building block revenue requirement for each year is the sum of the building block costs. These building block costs are set out in section 1.

A.1.1 Calculating the annual building block revenue requirement and expected MAR in the PTRM

The expected MAR is calculated using the PTRM.[123] The PTRM must be such that the expected MAR for each year of the regulatory control period is equal to the net present value (NPV) of the annual building block revenue requirement.[124] The total revenue cap is the sum of the MARs for the period.[125]

We developed the PTRM, which brings together the various building block costs and calculates the annual building block revenue requirement for each year of the regulatory control period.[126] The PTRM also calculates the X factors required under the CPI–X methodology which is used to escalate the expected revenue for each year (other than the first year) of the regulatory control period.[127] Using the X factors and annual building block revenue requirement, the annual expected MAR (smoothed) is forecast for each year of the regulatory control period. The TNSP's revenue proposal must be prepared using our PTRM.[128]

The annual building block revenue requirement can be lumpy over the regulatory control period. To minimise price shocks, revenues are smoothed within a regulatory control period while maintaining the principle of cost recovery under the building block approach. Smoothing requires diverting some of the cost recovery to adjacent years within the regulatory control period so that the NPV of the annual expected MAR (smoothed revenues) is equal to the NPV of the annual building block revenue requirement (unsmoothed revenues). That is, a smoothed profile of the expected MAR is determined for the regulatory control period under the CPI–X methodology.

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122 NER, cl. 6A.5.4.

123 NER, cll.6A.5.1 and 6A.5.3.

124 NER, cl. 6A.5.3(c)(1).

125 NER, cl. 6A.5.3(c)(4).

126 NER, cl. 6A.5.

127 NER, cll. 6A.5.3 and 6A.6.8.

128 NER, cl. 6A.5.1(a).

The expected MAR for the first year is generally set equal to the annual building block revenue requirement for the first year of the regulatory control period. At times, it may be more appropriate to set the expected MAR for the first year to align with the MAR from the last year of the previous regulatory control period to avoid any large revenue variation between periods (or P_0).[129]

$MAR_1 = AR_1 \text{ or } MAR_L$

where:

MAR_1 = the maximum allowed revenue for year 1 of the regulatory control period

AR_1 = the annual building block revenue requirement for year 1 of the regulatory control period

MAR_L ~ the maximum allowed revenue for the last year of the previous regulatory control period.

For a determination, we first calculate the annual building block revenue requirement for each year of the regulatory control period. To do this we consider the various costs facing the TNSP and the trade-offs and interactions between these costs, service quality and across years. This reflects our holistic assessment of the TNSP's proposal.

We understand the trade-offs that occur between building block costs and test the sensitivity of these costs to their various driver elements. These trade-offs are discussed in the interrelationships section of the various attachments to this draft decision and are reflected in the calculations made in the PTRM.[130] Such understanding allows us to exercise judgement in determining the final inputs into the PTRM and the annual building block revenue requirement that result from this modelling.

A.1.2 Annual revenue adjustment process

We use an expected inflation rate in our PTRM to calculate the expected MAR (as shown in Table 1.2) in nominal dollar terms. The calculation of the actual MAR will therefore require an adjustment for actual inflation. To this end, the actual MAR from the second year onwards is adjusted for actual inflation. As discussed in the *Rate of return instrument*, the MAR is also subject to adjustment to reflect our update of the TNSP's return on debt annually.[131] This means the actual MAR from the second year onwards will also be adjusted for revised

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129 The MAR for year 1 of the next regulatory control period may include adjustment for the performance incentive that applied during the previous regulatory control period, and under or over recovery adjustments from previous regulatory years.

130 There are trade-offs that are not modelled in the PTRM but are reflected in the inputs to the PTRM. For example, service quality is not explicitly modelled in the PTRM, but the trade-offs between service quality and price are reflected in the forecast capex and opex inputs to the model. Other trade-offs are obvious from the calculations in the PTRM. For example, while it may be expected that a lower RAB would also lower revenues, the PTRM shows that this will not occur if the reduction in the RAB is due solely to an increase in the depreciation rate. In such circumstances, revenues increase as the increased depreciation more than offsets the reduction in the return on capital caused by the lower RAB.

131 AER, *Rate of return instrument*, February 2023, cl. 24, Note 29.

X factors after the annual return on debt update. The method of this annual revenue adjustment process is set out below.

To enable the formula for the annual revenue adjustment process to operate correctly, we will refer to the expected MAR determined in this decision using the building block costs as the allowed revenue (AR). This is because the expected MAR determined using the building block costs does not incorporate performance incentive scheme revenue adjustments and pass through amounts that may apply to each regulatory year.

We determine the AusNet's AR for the first year of the 2027–32 period in this decision. The TNSP then applies an annual adjustment to determine its AR for each subsequent year, based on the previous year's AR and using the CPI–X methodology.[132] That is, allowed revenue for each subsequent year is determined by adjusting the previous year's AR for actual inflation and the X factor determined after the annual return on debt update:

$$AR_t = AR_{t-1} \times (1 + \Delta CPI) \times (1 - X_t)$$

where:

AR	=	the allowed revenue
t	=	time period/financial year (for t = 2 (2028–29), 3 (2029–30), 4 (2030–31), 5 (2031–32))
ΔCPI	=	the annual percentage change in the ABS Consumer price index quarterly all groups, Australia[133] from September in year t – 2 to September in year t – 1
X	=	the smoothing factor determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update in accordance with the formula specified in the *Rate of return instrument* calculated for the relevant year.[134]

The MAR used for transmission pricing is determined annually as part of the annual revenue adjustment process in accordance with the NER. The MAR is determined each year by adding to (or deducting from) the allowed revenue:[135]

- the service target performance incentive scheme revenue increment (or revenue decrement)[136]

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132 In the case of making the annual adjustment for year 2, the previous year's AR would be the same as the approved expected MAR for year 1 as contained in the PTRM.

133 If the ABS does not or ceases to publish the index, or it is substantially changed, then CPI will mean an index which the AER considers is the best available alternative index.

134 AER, *Rate of Return Instrument*, February 2023, cl. 9.

135 NER, cl. 6A.3.2.

136 NER, cl. 6A.7.4.

- any approved pass through amounts.[137]

For AusNet, the annual MAR is established according to the following formula:

MAR_t = (allowed revenue) + (performance incentive) + (pass through) + concessional finance adjustment

$$= \mathrm{AR}_t + \left(\left(\mathrm{AR}_{t-2} \times \frac{3}{12}\right) + \left(\mathrm{AR}_{t-1} \times \frac{9}{12}\right)\right) \times \mathrm{S}_{ct} + \mathrm{P}_t + \mathrm{CFA}_t$$

where:

MAR	=	the maximum allowed revenue
AR	=	the allowed revenue
S	=	the percentage revenue increment or decrement determined in accordance with the service target performance incentive scheme
P	=	the pass through amount (positive or negative) that the AER has determined in accordance with clauses 6A.7.2 and 6A.7.3 of the NER
CFA	=	the concessional finance adjustment amount (negative) that the AER has determined in accordance with clauses 6A.3.3 and 6A.7.7 of the NER
t	=	time period/financial year (for *t* = 2 (2028–29), 3 (2029–30), 4 (2030–31), 5 (2031–32))
ct	=	time period/calendar year (for *ct* = 2 (2027), 3 (2028), 4 (2029), 5 (2030)).

The TNSP may also adjust the MAR for under- or over-recovery amounts.[138] That is, if the revenue amounts earned from providing prescribed transmission services in previous regulatory years are higher or lower than the sum of the approved MAR for those years, the difference can be included in the subsequent year's MAR. In the case of an under-recovery, the amount is added to the subsequent year's MAR. In the case of an over-recovery, the amount is subtracted from the subsequent year's MAR.

Table A1 sets out the timing of the annual calculation of the AR and performance incentive.

137 NER, cll. 6A.7.2 and 6A.7.3.

138 NER, cl. 6A.23.3(e)(5).

Table A1 Timing of the calculation of allowed revenues and the performance incentive for AusNet

t	Allowed revenue (financial year)	*ct*	Performance incentive (calendar year)
2	1 April 2028 – 30 March 2029	2	1 January 2027 – 31 December 2027
3	1 April 2029 – 30 March 2030	3	1 January 2028 – 31 December 2028
4	1 April 2030 – 30 March 2031	4	1 January 2029 – 31 December 2029
5	1 April 2031 – 30 March 2032	5	1 January 2030 – 31 December 2030

Note: The performance incentive for the period 1 January 2026 to 31 December 2026 is to be applied to the AR determined for 2027–28 (AR_1).

A.1.3 Revenue smoothing

In determining the total revenue requirement for the regulatory control period, we smooth the annual building block revenue requirement for each regulatory year across that period. This step reduces revenue variations between years, and calculates the expected MAR and X factor for each year.[139] The X factors equalise (in NPV terms) the total expected revenue cap to be earned by the TNSP with the total revenue requirement for the regulatory control period.[140] The X factor profile must also minimise, as far as reasonably possible, the variance between the expected MAR and annual building block revenue requirement for the last regulatory year of the period.[141] By minimising this divergence, it helps to manage the prospect of a significant revenue change (and consequently prices) between the last year of the regulatory control period, and first year of the following regulatory control period. 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 reasonable, if this can promote smoother price changes across the regulatory control periods.

A.1.4 Shared assets

Service providers may use assets to provide both prescribed transmission services we regulate and unregulated services, for example by renting out the transmission tower space for housing of third-party equipment. These assets are called 'shared assets'.[142] If the revenue from shared assets is material, 10% of the unregulated revenues that a service provider earns from shared assets will be used to reduce the service provider's revenue for prescribed transmission services.[143]

139 NER, cl. 6A.6.8.

140 NER, cl. 6A.6.8(c)(1). The X factors represent the real revenue path over the regulatory control period under the CPI–X framework.

141 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 promote smoother price changes for users over the regulatory control period.

142 NER, cl. 6A.5.5.

143 AER, *Shared asset guidelines*, June 2025, Appendix A, p. 17.

The shared asset principles establish that use of shared assets should be material before cost reductions are applied.[144] The NER does not define materiality in this context. Our approach to what constitutes a material use of shared assets is that unregulated use of shared assets in a specific regulatory year is material when a service provider's annual average unregulated revenue from shared assets is expected to be greater than 1% of its MAR for that regulatory year.[145]

A.2 Regulatory asset base – assessment approach

We roll forward the TNSP's RAB over the current regulatory control period to arrive at an opening RAB value at the start of the next regulatory control period. This value must be adjusted for any differences between estimated and actual capex, including the return on that difference.[146] It may also be adjusted to reflect any changes in the use of the assets, with only assets used to provide prescribed transmission services to be included in the RAB.[147]

A.2.1 Rolling forward the RAB in the RFM

To determine the opening RAB at the start of the next regulatory control period, we developed an asset base RFM that a TNSP must use in preparing its regulatory proposal.[148] We use the RFM to roll forward the TNSP's RAB from the beginning of the final year of the previous regulatory control period[149], through the current regulatory control period, to the beginning of the next regulatory control period.

The roll forward for each year of the above periods occurs by:

- adding actual inflation (indexation) adjustment to the opening RAB for the relevant year. This adjustment is consistent with the inflation factors used in the annual indexation of the maximum allowed revenue.[150]
- adding actual or estimated capex to the RAB for the relevant year.[151] We review a TNSP's past capex and may exclude past capex from being rolled into the RAB where total capex exceeds the regulatory allowance.[152] The details of our assessment approach for capex overspending are set out in the *Capital Expenditure incentive guideline*.[153] We note that our review of past capex does not include the last two years of the current regulatory control period—these will instead be reviewed at the next revenue

144 NER, cl. 6A.5.5(c)(3).

145 AER, *Shared asset guidelines*, June 2025, Appendix A, p. 7.

146 NER, cl. S6A.2.1(f)(3).

147 NER, cll. S6A.2.1(f)(6)–(8) and S6A.2.3.

148 NER, cll. 6A.6.1(b), 6A.6.1(e) and S6A.1.3(5); AER, *Electricity transmission network service providers: Roll forward model version 4.1,* May 2022.

149 NER, cl. S6A.2.1(f)(3).

150 NER, cl. 6A.6.1(e)(3).

151 NER, cl. S6A.2.1(f)(4).

152 NER, cl. S6A.2.2A. Under the NER, cl. S6A.2.2A(b), the exclusion of inefficient capex could only come from three areas: overspend in capex, margin paid to third party and capitalisation of opex as defined in cll. S6A.2.2A (c), (d) and (e) of the NER.

153 AER, *Capital expenditure incentive guideline for electricity network service providers*, August 2025, pp. 10–22.

determination.[154] We check actual capex amounts against audited annual regulatory accounts or AIO data and generally accept the capex reported in those sources in rolling forward the RAB.[155] However, there may be instances where adjustments are required to the annual regulatory accounts or AIO data.[156]

- subtracting depreciation from the RAB for the relevant year, calculated in accordance with the transmission determination for the TNSP's previous regulatory control period.[157] Depreciation based on forecast or actual capex can be used to roll forward the RAB.[158] Our default approach is to use depreciation based on forecast capex for rolling forward the TNSP's RAB over the regulatory control period.[159]
- subtracting any gross proceeds for asset disposals for the relevant year from capex to be added to the RAB.[160] We check these amounts against audited regulatory accounts or RIN data.

These annual adjustments give the closing RAB for any particular year, which then becomes the opening RAB for the following year. Through this process the RFM rolls forward the RAB to the end of the current regulatory control period. The PTRM, which is used to calculate the annual building block revenue requirement for the next regulatory control period, generally adopts the same RAB roll forward approach as the RFM. However, in the PTRM, the annual adjustments to the RAB are based on forecasts, rather than actual amounts.[161]

A.2.2 Depreciation approach in the RAB foll forward

The opening RAB for the subsequent regulatory control period can be determined using depreciation based either on forecast or actual capex incurred during the next regulatory control period.[162] To roll forward the RAB using depreciation based on forecast capex, we would use the forecast depreciation contained in the PTRM for the next regulatory control period, adjusted for actual inflation. If the approach to roll forward the RAB using depreciation based on actual capex was adopted, we would recalculate the depreciation based on actual capex incurred during the next regulatory control period.

Our decision on whether to use actual or forecast depreciation must be consistent with the capex incentive objective.[163] This objective is to ensure that increases to the RAB through

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154 NER, cl. S6A.2.2A(a1). The 2-year lag ensures that actual capex (instead of estimated capex) is available when the review of past capex commences.

155 We will update any estimated capex with actual capex at the time of the next transmission determination.

156 For example, we make adjustment for movements in capitalised provisions if the actual capex amounts reported in the regulatory accounts or AIO include capitalised provisions.

157 NER, cl. S6A.2.1(f)(5).

158 NER, cl. 6A.14.1(5E).

159 The use of forecast depreciation must be consistent with the depreciation approach established in the TNSP's determination for the previous period.

160 NER, cl. S6A.2.1(f)(6).

161 NER, cl. S6A.2.4(c).

162 NER, cl. S6A.2.2B(a).

163 AER, *Final framework and approach for AusNet Services transmission determination 2027–32*, April 2025, p. 7.

capex only occur where that capex reasonably reflects the capex criteria.[164] In deciding between actual and forecast depreciation, we have regard to:[165]

- the incentives the service provider has to undertake efficient capex
- substitution possibilities between assets with different lives and the relative benefits of each
- the extent of overspending and inefficient overspending relative to the allowed forecast
- the capex incentive guideline
- the capex factors.

A.2.3 Interrelationships

The RAB is an input into the determination of the return on capital and depreciation (return of capital) building block amounts.[166] Factors that influence the RAB will therefore flow through to these building block components and the annual revenue requirement. Other things being equal, a higher RAB increases both the return on capital and depreciation amounts.

The RAB is determined by factors, including:

- the opening RAB (meaning the value of existing asset at the beginning of the regulatory control period)
- net capex[167]
- depreciation
- indexation adjustment – so the RAB is presented in nominal terms, consistent with the rate of return.

The opening RAB at the start of a regulatory control period depends on the value of existing assets and will depend on actual net capex, actual inflation outcomes and depreciation in the past.

The RAB when projected to the end of the period increases due to both forecast new capex and the indexation adjustment. The size of the indexation adjustment depends on expected inflation (which also affects the nominal rate of return or WACC) and the size of the RAB at the start of each regulatory year.

Depreciation reduces the RAB. The depreciation amount depends on the size of the opening RAB, the forecast net capex and depreciation schedules applied to the assets. By

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164 NER, cl, 6A.5A(a).

165 NER, cl. S6A.2.2B(b) and (c).

166 The size of the RAB also impacts the benchmark debt raising cost allowance. However, this amount is usually relatively small and therefore not a significant determinant of revenues overall. It should be noted that the return on capital is calculated based on the RAB measured on an as-incurred basis while depreciation (return of capital) is calculated based on the RAB measured on an as-commissioned basis.

167 Net capex is gross capex less disposals. The rate of return or WACC also influences the size of the capex. This is because the capex is not depreciated in the year it is first commissioned, but added to the RAB at the end of the year. Instead, the capex amount is escalated by half-year WACC to arrive at an end of year value. It then begins depreciating the following year.

convention, the indexation adjustment is also offset against depreciation to prevent double counting of inflation in the RAB and WACC, which are both presented in nominal terms. This reduces the regulatory depreciation building block that feeds into the annual revenue requirement.

We maintain the RAB in real terms by indexing for inflation.[168] A nominal rate of return (WACC) is multiplied by the opening RAB to produce the return on capital building block.[169] To prevent the double counting of inflation through the nominal WACC and indexed RAB,[170] the regulatory depreciation building block has an offsetting reduction for indexation of the RAB.[171] Indexation of the RAB and the offsetting adjustment made to depreciation results in smoother revenue recovery profile over the life of an asset than if the RAB was un-indexed. If the RAB was un-indexed, there would be no need for an offsetting adjustment to the depreciation calculation of total revenue. This alternative approach provides for overall revenues being higher early in the asset's life (as a result of more depreciation being returned to the TNSP) and lower in the future—producing a steeper downward sloping profile of total revenue.[172] The implications of an un-indexed RAB are discussed further in appendix A.3.

A 10% increase in the opening RAB at the start of the regulatory control period generally causes unsmoothed revenues ($ nominal) to increase by about 4% to 9%. However, the impact on revenues of the annual change in RAB depends on the source of the RAB change, as some drivers affect more than one building block cost.[173]

A.3 Regulatory depreciation – assessment approach

We must determine the regulatory depreciation amount as part of determining a TNSP's annual building block revenue requirement.[174] The calculation of depreciation in each year is governed by the value of assets included in the RAB at the beginning of the regulatory year, and by the depreciation schedules.[175]

A.3.1 Calculating depreciation in the PTRM

Our standard approach to calculating depreciation is to employ the straight-line method set out in the PTRM. Regulatory practice has been to assign a standard asset life to each category of assets that represents the economic or technical life of the asset or asset

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168 NER, cll 6A.5.4(b)(1) and 6A.6.1(e)(3).

169 NER, cl. 6A.6.2; AER, *Rate of return instrument*, cll. 1, 3, 36(c), February 2023.

170 NER, cl. 6A.5.4(b)(1)(ii).

171 If the asset lives are extremely long, such that the RAB depreciation rate is lower than the inflation rate, then negative regulatory depreciation can emerge. The indexation adjustment is greater than the RAB depreciation in such circumstances. Please also refer to Appendix A.3.3 for further explanation of the offsetting adjustment to the depreciation.

172 A change of approach from an indexed RAB to an un-indexed RAB would result in an initial step change increase in revenues to preserve net NPV neutrality.

173 If capex causes the RAB increase, return on capital, depreciation, and debt raising costs all increase too. If a reduction in depreciation causes the RAB increase, revenue could increase or decrease. In this case, the higher return on capital is offset (perhaps more than offset) by the reduction in depreciation allowance. Inflation naturally increases the RAB in nominal terms.

174 NER, cll. 6A.5.4(a)(3) and 6A.5.4(b)(3).

175 NER, cl. 6A.6.3(a).

class.[176] We must consider whether the proposed depreciation schedules conform to the following key requirements:

- the schedules must depreciate using a profile that reflects the nature of the assets or category of assets over the economic life of that asset or category of assets[177] (apart from in certain specified circumstances)[178]
- the sum of the real value of the depreciation that is attributable to any asset or category of assets must be equivalent to the value at which that asset or category of assets was first included in the RAB for the relevant transmission system[179]
- the economic life of the assets, and the depreciation methods and rates underpinning the calculation of depreciation for a regulatory control period must be consistent with those determined for the same assets on a prospective basis in the transmission determination for that period.[180]

To the extent that a TNSP's regulatory proposal does not conform with the above requirements, we must determine the depreciation schedules for calculating the depreciation for each regulatory year.[181]

A.3.2 Assessing the depreciation inputs to the PTRM

The regulatory depreciation amount is an output of the PTRM. We therefore assess the TNSP's proposed regulatory depreciation amount by analysing the proposed inputs to the PTRM for calculating that amount. The key inputs include:

- the opening RAB at the start of the regulatory control period
- the forecast net capex in the next regulatory control period[182]
- the expected inflation rate for the next regulatory control period
- the standard asset life for each asset class—used for calculating the depreciation of new assets associated with forecast net capex in the next regulatory control period
- the depreciation of existing assets in the opening RAB at the start of the regulatory control period—calculated in a separate year-by-year tracking depreciation module.

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176 This is the standard practice for the AER, as well as other jurisdictional regulators. See for example, IPART, Cost building block model template, 20 June 2014, Table 1; ERAWA, *Final Decision on Proposed Revisions to the Access Arrangement for the Western Power Network*, *Appendix 2: Target Revenue Calculation (Revenue Model)*, September 2012; AER, *Final decision: Electricity transmission network service providers – Post-tax revenue model handbook*, April 2021, p. 15.

177 NER, cl. 6A.6.3(b)(1).

178 NER, cll. 6A.6.3(b)(1) and 6A.6.3(c).

179 NER, cl. 6A.6.3(b)(2).

180 NER, cl. 6A.6.3(b)(3).

181 NER, cl. 6A.6.3(a)(2)(ii).

182 Capex enters the RAB net of forecast disposals. It includes equity raising costs (where relevant) and is adjusted for half-year WACC to account for the timing assumptions in the PTRM. Our draft decision on the RAB (section 1.2) also reflects our updates to the WACC for the 2027–32 period.

Our draft decision on the TNSP's regulatory depreciation amount reflects our determinations on the opening RAB, forecast capex and expected inflation rate (the first three building block components in the above list).[183] Our determinations on these components of the TNSP's proposal are discussed in section 1.2, Attachment 2 and Overview section 2.2, respectively.

In this attachment, we assess the TNSP's proposed standard asset lives against:

- the approved standard asset lives in the transmission determination for the current regulatory control period
- the standard asset lives of comparable asset classes approved in our recent transmission determinations for other service providers
- the appropriate economic lives of the assets.

Our regulatory models (RFM and PTRM) provide for 2 approaches for calculating the straight-line depreciation of existing assets:

- The 'weighted average remaining lives' (WARL) approach: This approach calculates the remaining asset life for an asset class by weighting together its remaining asset life at the beginning of the regulatory control period with the new capex added to the asset class during that period. The residual asset values are used as weights to calculate the remaining asset life at the end of that period. The WARL for the asset classes are calculated in our RFM and are inputs to the PTRM. We consider this approach meets the requirements for determining depreciation under the NER.
- The 'year-by-year tracking' approach: Under this approach, the capex (in addition to grouping assets by type via asset classes) for each year of the regulatory control period is depreciated separately and tracked on a year-by-year basis over the assigned standard life for the asset class. This approach does not require the assessment of the remaining asset life at each five-yearly regulatory determination. We consider this approach also meets the requirements for determining depreciation under the NER. Our depreciation tracking module in the RFM conducts the detailed calculations required under this approach. The output of this module is then recorded in the PTRM.

A.3.3 Interrelationships

The regulatory depreciation amount is a building block component of the annual building block revenue requirement.[184] Higher (or quicker) depreciation leads to higher revenues over the regulatory control period. It also causes the RAB to reduce more quickly (excluding the impact of further capex). This reduces the return on capital amount, although this impact is usually smaller than the increased depreciation amount in the short to medium term.[185]

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183 Our final decision will update the opening RAB as at 1 April 2027 for revised estimates of actual capex and inflation.

184 The PTRM distinguishes between straight-line depreciation and regulatory depreciation, where regulatory depreciation is the straight-line depreciation less the indexation adjustment.

185 This is generally the case because the reduction in the RAB amount feeds into the higher depreciation building block, whereas the reduced return on capital building block is proportionate to the lower RAB multiplied by the WACC.

Ultimately, however, a TNSP can only recover the capex that it incurs on assets once. The depreciation amount reflects how quickly the RAB is being recovered, and it is based on the asset lives used in the depreciation calculation. It also depends on the level of the opening RAB and the forecast capex. Any increase in these factors also increases the depreciation amount.

The RAB has to be maintained in real terms, meaning the RAB must be indexed for expected inflation.[186] The return on capital building block has to be calculated using a nominal rate of return applied to the opening RAB.[187] As noted in section 1.1, the total annual building block revenue requirement is calculated by adding up the return on capital, depreciation, operating expenditure (opex), tax and revenue adjustments building blocks. Because inflation on the RAB is accounted for in both the return on capital—based on a nominal rate—and the depreciation calculations—based on an indexed RAB—an adjustment must be made to the revenue requirement to prevent compensating twice for inflation.

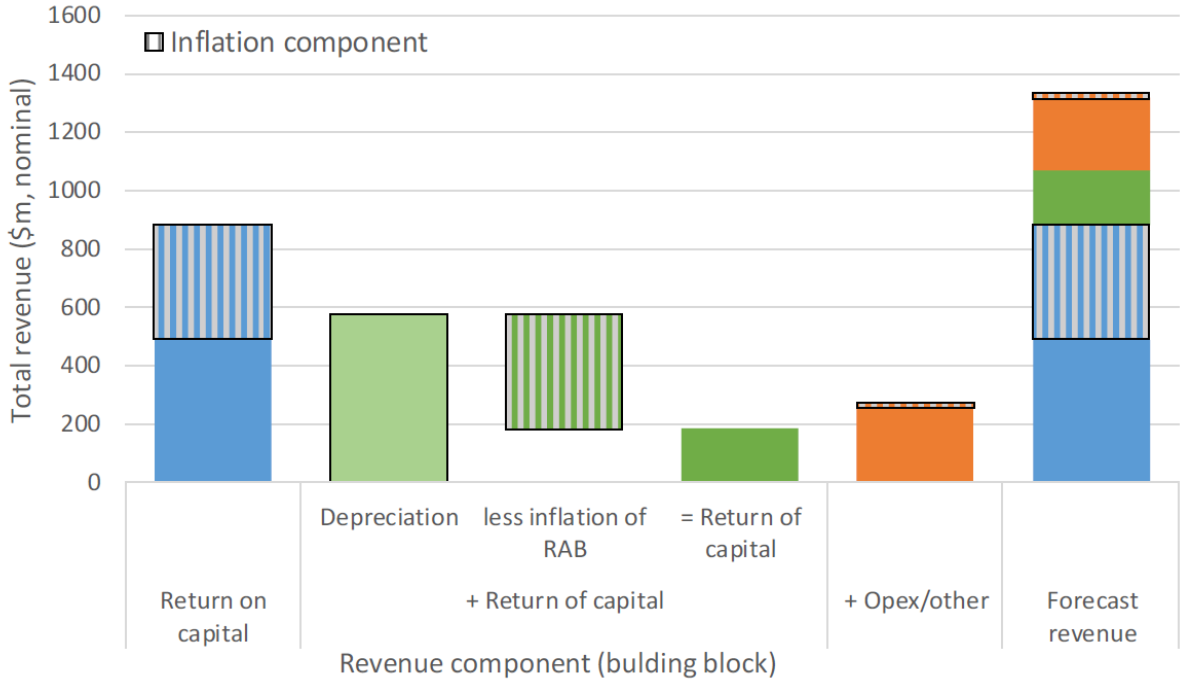
To avoid this double compensation, we make an adjustment by subtracting the annual indexation gain on the RAB from the calculation of total revenue. Our standard approach is to subtract the indexation of the opening RAB—the opening RAB multiplied by the expected inflation for the year—from the RAB depreciation. The net result of this calculation is referred to as regulatory depreciation.[188] Regulatory depreciation is the amount used in the building block calculation of total revenue to ensure that the revenue equation is consistent with the use of a RAB, which is indexed for inflation annually. Figure A1 shows where the inflation components are included in the building block costs.

186 NER, cl. 6A.2.4(c)(4).

187 AER, *Rate of return instrument*, cll. 1, 3, 36(c), February 2023.

188 If the asset lives are extremely long, such that the RAB depreciation rate is lower than the inflation rate, then negative regulatory depreciation can emerge. The indexation adjustment is greater than the straight-line depreciation in such circumstances.

Figure A1 Inflation components in revenue building block – example



Source: AER analysis.

This approach produces the same total revenue requirement and RAB as if a real rate of return had been used in combination with an indexed RAB. Under an alternative approach where a nominal rate of return was used in combination with an un-indexed (historical cost) RAB, no adjustment to the depreciation calculation of total revenue would be required. This alternative approach produces a different time path of total revenue compared to our standard approach. In particular, overall revenues would be higher early in the asset's life (as a result of more depreciation being returned to the TNSP) and lower in the future—producing a steeper downward sloping profile of total revenue.[189] Under both approaches, the total revenues being recovered are in present value neutral terms—that is, returning the initial cost of the RAB.

Figure A2 shows the recovery of revenue under both approaches using a simplified example.[190] Indexation of the RAB and the offsetting adjustment made to depreciation results in a smoother revenue recovery profile over the life of an asset than if the RAB was un-indexed. The indexation of the RAB also reduces prices shocks when the asset is replaced at the end of its life.[191]

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189 A change of approach from an indexed RAB to an un-indexed RAB would result in an initial step change increase in revenues to preserve net NPV neutrality.

190 The example is based on the initial cost of an asset of $100, a standard economic life of 25 years, a real WACC of 2.50%, expected inflation of 2.40% and nominal WACC of 4.96%. Other building block components such as opex, tax and capex are ignored for simplicity as they would affect both approaches equally.

191 In year 26, the revenues in the example for the un-indexed approach would jump from about $4 to $9, assuming the asset is replaced by an asset of roughly similar replacement cost as the initial asset. In contrast, in the same circumstances, the indexed approach would see revenues stay at roughly $7.

Figure A2 Revenue path example – indexed vs un-indexed RAB ($ nominal)

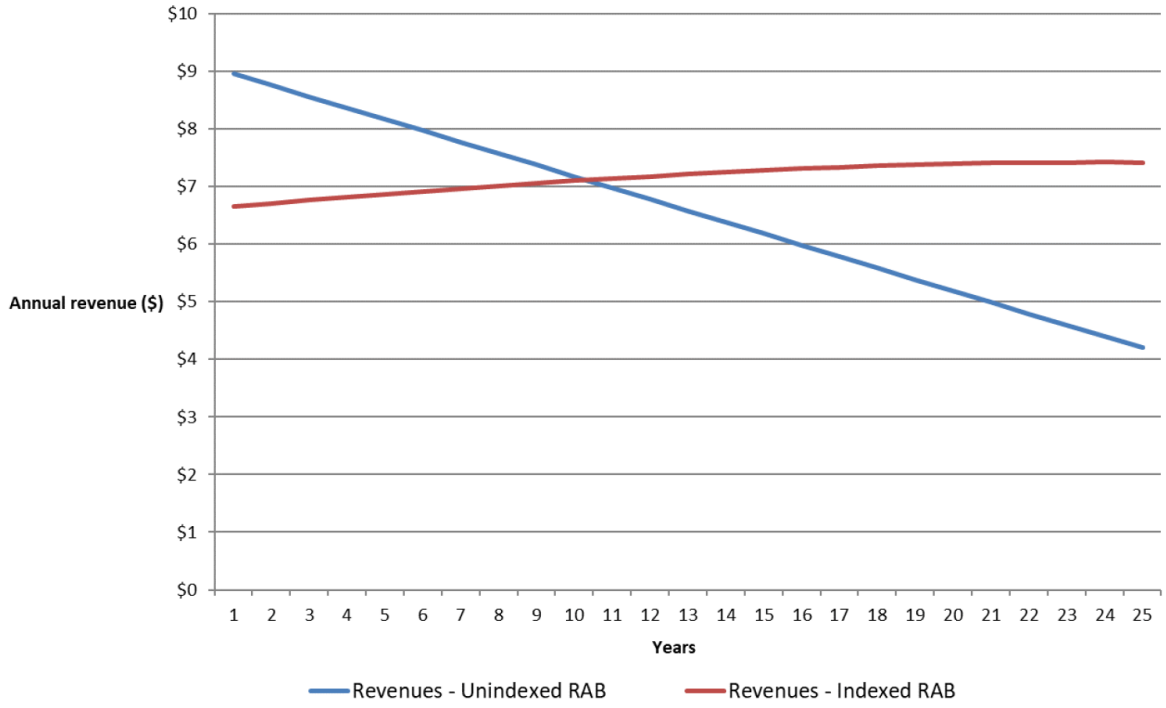

Figure 1.5 in section 1.2 shows the relative size of the inflation and straight-line depreciation, and their impact on the RAB. A 10% increase in the straight-line depreciation generally causes unsmoothed revenues ($ nominal) to increase by about 3% to 6%.

A.4 Corporate income tax – assessment approach

We make an estimate of the taxable income for each regulatory year as part of our determination of the annual building block revenue requirement for the TNSP's regulatory control period.[192] Our estimate is the taxable income that a benchmark efficient entity would earn for providing prescribed transmission services if it operated the TNSP's business, which is determined in accordance with the PTRM.

A.4.1 Calculating estimated cost of corporate income tax in the PTRM

Our standard approach for calculating the TNSP's estimated cost of corporate income tax is set out in our PTRM and involves the following steps:[193]

1. We estimate the annual assessable income (taxable revenue) that would be earned by benchmark efficient entity operating the TNSP's business. This is the approved forecast revenues for the TNSP that we determined using the building block approach.[194]

192 Clause 6A.6.4 of the NER sets out the formula we must use to estimate corporate income tax.

193 The PTRM must specify the manner in which the estimated cost of corporate income tax is to be calculated: NER, cl. 6A.5.3(b)(4).

194 The total revenue for tax purposes is the sum of the building blocks including return on capital, return of capital, operating expenditure and cost of corporate taxation. It may also include other revenue adjustments, but the assessment of whether they should give rise to a tax payable will occur on a case-by-case basis.

2. We then estimate the benchmark tax expenses such as opex, interest expense and tax depreciation in the following ways:
   - operating expense is set equal to the opex building block[195]
   - interest expense is a function of the size of the RAB, the benchmark gearing assumption (60%) and the regulated cost of debt
   - tax depreciation expense is calculated using a separate value for the TAB, and standard and/or remaining tax asset lives for taxation purposes. Previously, the PTRM applied the straight-line method for calculating tax depreciation for all assets. Consistent with the findings of the 2018 tax review,[196] the PTRM (version 5.1) applies the straight-line tax depreciation method for existing assets and the diminishing value tax depreciation method[197] for all assets acquired after implementation of the tax review findings except for in-house software, buildings (capital works) and equity raising costs. The expenditure for these assets is to be depreciated using the straight-line method under the tax law. The PTRM also accounts for the value of certain forecast capex to be immediately expensed when estimating the benchmark tax expense. The value of immediately expensed capex is deducted from the net capex being depreciated for tax purposes for the year in which it is forecast to be incurred.[198] The immediately expensed amount is then included in the total tax depreciation amount for the relevant year.

   There may be other revenue adjustments, but the assessment of whether they should give rise to a tax payable occurs on a case-by-case basis.
3. We estimate the annual taxable income that would be earned by a benchmark efficient entity operating the TSNP's business by subtracting the benchmark estimates of tax expenses (step 2) from the approved forecast revenues for the TNSP (step 1).
4. We apply the statutory income tax rate to the estimated annual taxable income (after adjustment for any tax loss carried forward) to arrive at a notional amount of tax payable.
5. We deduct the expected value for the utilisation of imputation credits (gamma) by investors from the notional amount of tax payable. The tax payable net of the expected value of imputation credits represents the estimated cost of corporate income tax and is included as a separate building block in determining the TNSP's annual building block revenue requirement.

A.4.2 Assessing tax inputs to the PTRM

The estimated cost of corporate income tax is an output of the PTRM. We therefore assess the TNSP's proposed cost of corporate income tax by analysing the proposed inputs to the PTRM for calculating that cost. Our assessment approach for each of the tax inputs required in the PTRM are discussed in turn below:

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195 Our assessment approach for the opex building block is discussed in Attachment 3 of the draft decision.

196 AER, *Final report, Review of regulatory tax approach*, December 2018.

197 For more explanation of how we calculate depreciation using the diminishing value method, please see: AER*, Transmission PTRM handbook*, April 2021, pp. 22–23.

198 That is, the net capex to be added to the TAB for tax depreciation purposes is the amount of gross capex, less disposals, less the immediately expensed capex.

- **The opening TAB value as at the commencement of the next regulatory control period**: We consider that the roll forward of the opening TAB should be based on the approved opening TAB at the start of the current regulatory control period and the TNSP's actual/estimated capex incurred during the current regulatory period, and the actual capex incurred in the final year of the previous regulatory control period.[199] The roll forward of the opening TAB for the current regulatory period is calculated in our RFM, which relies on the depreciation module.

  The opening TAB value at the start of the next regulatory control period is used to estimate forecast tax depreciation for that period, including new assets to be added to the TAB over this period. We will continue to apply the straight-line method of tax depreciation for existing assets in the opening TAB prior to the implementation of the 2018 tax review findings. However, for all assets added to the TAB after this implementation (with some exceptions discussed further below), we will apply the diminishing value method of tax depreciation.

- **The standard tax asset life for each asset class:** Our assessment of a TNSP's proposed standard tax asset life is generally guided by the effective life of depreciating assets determined by the Commissioner of Taxation. We consider that the standard tax asset lives for the majority of the TNSP's asset classes should be consistent with the ATO Legislative Instrument 2025/20 regarding the effective life of depreciating assets where possible.[200]

  As discussed above, the PTRM applies the diminishing value tax depreciation method for all new assets except for in-house software, buildings (capital works) and equity raising costs. It provides designated asset classes for these assets to be depreciated using the straight-line method for tax purposes.[201] We note that the tax effective lives for in-house software, buildings (capital works) and equity raising costs are not covered under the ATO Legislative instrument 2025/20. Therefore, our assessment of the standard tax asset lives for these asset classes are guided by the *Income Tax Assessment Act 1997* (ITAA). Specifically, we consider that the standard tax asset life should be:

  - 40 years for buildings. This is consistent with the number of years required to completely depreciate capital works assets such as buildings for tax purposes when applying sections 43-15, 43-140 and 43-210 of the ITAA.
  - 5 years for in-house software. This is consistent with subsection 40-95(7) of the ITAA.
  - 5 years for equity raising costs. This is consistent with section 40-880 of the ITAA.

- **The income tax rate**: The statutory income tax rate is 30% per annum for businesses of the size we regulate.

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199 The tax depreciation is therefore recalculated based on actual capex. The same tax depreciation approach of using actual capex applies to the roll forward of the TAB at the next revenue determination.

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

201 Our assessment approach on new assets to be exempted from the diminishing value method is discussed in detail below.

- **The value of gamma**: The gamma input is set out in the 2022 *Rate of Return Instrument*, which requires us to use a gamma value of 0.57.[202] This is discussed further in Overview section 2.2.
- **The size and treatment of any tax losses as at the commencement of the next regulatory control period**: Where a business has tax losses under our benchmark approach, we require the provision of this value to determine the appropriate estimated taxable income for a regulatory control period. If there is an amount of tax losses accumulated, the forecast taxable income for the regulatory control period will be reduced by this amount.
- **Forecast immediately expensed capex:** The PTRM requires a forecast for immediately deductible capex to be provided for each regulatory year of the next regulatory control period. Our assessment of forecast immediately expensed capex will be guided by the TNSP's actual immediately expensed capex from the previous regulatory control period.[203] We will collect actual data relating to this expenditure in our annual information orders to further inform our decision on the amount of forecast immediately expensed capex in future regulatory determinations. Benchmarking may also be considered going forward.[204]
- **Diminishing value multiplier:** The PTRM applies the diminishing value method of tax depreciation and provides an input section for the 'diminishing value multiplier' to be recorded for each year of the regulatory control period. We note that currently the diminishing value multiplier is set at 200% by the ATO.
- **New assets to be exempted from the diminishing value method:** The PTRM applies the diminishing value method for tax depreciation purposes to all new depreciable assets except for certain assets. It provides for asset classes 47 to 50 to be depreciated using the straight-line method for tax purposes instead of the diminishing value method. These asset classes are to contain new assets associated with in-house software, buildings (capital works) and equity raising costs.

  We consider that the benchmark equity raising costs should not be depreciated using the diminishing value method. We note that section 40-880 of the ITAA and the ATO's taxation ruling 2011/6[205] require that businesses claim deductions on equity raising costs in equal proportions over a 5-year period. Therefore, in the PTRM, we apply the straight-line method for calculating the tax depreciation for equity raising costs, consistent with the ITAA and ATO's requirements.[206] Further, the TNSP may propose capex associated with buildings and in-house software be exempted from the diminishing value method of tax depreciation in the PTRM if the proposal satisfies the following requirements:

  - **Buildings:** We consider that capex for buildings may be exempted from the diminishing value method in the PTRM, consistent with sections 43-15, 43-140 and

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202 AER*, Rate of Return Instrument*, February 2023, p. 9.

203 In the tax review final report, we labelled our approach to determining the amount of capex that is to be immediately expensed as an 'actuals informed approach'. AER, *Final Report, Review of regulatory tax approach*, December 2018, p. 66.

204 AER, *Final report, Review of regulatory tax approach*, December 2018, pp. 66–67.

205 ATO, *Taxation Ruling 2011/6*, July 2016.

206 The benchmark cost for equity raising costs is determined within the PTRM.

43-210 of the ITAA. However, such capex must be consistent with the definition of a capital work under section 43-20 of the ITAA and in ATO taxation ruling 97/25.[207] We note that this includes new buildings and structural improvements to existing buildings.[208] However, capex on separate assets within a building such as air-conditioning units, transformers and converters are not consistent with the definition of a capital work, and therefore are required to be depreciated using the diminishing value method in the PTRM.

- **In-house software:** We consider that capex for in-house software may be exempted from the diminishing value method in the PTRM, consistent with section 40-72 of the ITAA. However, such capex must be consistent with the definition of in-house software under section 995-1 of the ITAA and in ATO taxation ruling 2016/3.[209] We note that this includes computer software, or the right to use computer software that the TNSP acquires, develops or has someone else develop for the TNSP's business use.[210] However, capex associated with other IT assets such as computer hardware is not consistent with the definition of in-house software and is therefore required to be depreciated using the diminishing value method in the PTRM.

A.4.3 Interrelationships

The cost of corporate tax income building block feeds directly into the annual building block revenue requirement. This amount is determined by five factors:

- pre-tax revenues
- tax expense (including tax depreciation)
- the corporate tax rate
- any tax losses carried forward
- gamma — the expected proportion of company tax that is returned to investors through the utilisation of imputation credits–which is offset against the corporate income tax payable.

Of these factors, the corporate tax rate is set externally by the Australian Government. The higher the tax rate, the higher the required tax payable.

The pre-tax revenues depend on all the building block components. Any factor that affects revenue will therefore affect pre-tax revenues. Higher pre-tax revenues can increase the tax

207 ATO, *Taxation Ruling 97/25*, July 2017.

208 ITAA, section 43-20.

209 ATO, *Taxation Ruling 2016/3*, October 2018.

210 ITAA, section 995-1.

payable.[211] Depending on the source of the revenue increase, the tax increase may be equal to or less than proportional to the company tax rate.[212]

The tax expenses (or deductions) depend on various building block components and their size. Some components give rise to tax expenses, such as opex, interest payments and tax depreciation of assets. However, others do not, such as increases in return on equity. Higher tax expenses offset revenues as deductions in the tax calculation and therefore reduce the cost of corporate income tax (all things being equal). Tax expenses include:

- Interest on debt – because interest is a tax offset. The size of this offset depends on the ratio of debt to equity and therefore the proportion of the RAB funded through debt. It also depends on the allowed return on debt and the size of the RAB.
- General expenses – these expenses generally will match the opex forecast including any revenue adjustments, but the assessment of whether they should be treated as a tax expense occurs on a case-by-case basis.
- Tax depreciation – a separate TAB is maintained for the TNSP reflecting tax rules. This TAB is affected by many of the same factors as the RAB, such as capex, although unlike the RAB value it is maintained at its historical cost with no indexation. The TAB is also affected by the depreciation rate/method and asset lives assigned for tax depreciation purposes.

A business that has tax expenses which are greater than its taxable revenue in a period would not be subject to pay tax and instead will generate a tax loss. A tax loss can be carried forward to offset against tax payable in the future.

For a business that does not have tax losses, a 10% increase to the cost of corporate income tax amount generally causes unsmoothed revenues ($ nominal) to increase by up to 1%.

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211 The PTRM recognises the iterative relationship between revenue and the cost of corporate income tax. Higher revenue increases taxable income and therefore the corporate income tax building block. Recovering that additional tax cost then increases required revenue, which can lead to a further, smaller increase in the tax building block. The PTRM therefore repeats the calculation until revenue and the cost of corporate income tax stabilise.

212 For example, higher opex increases the revenue requirement but is also deductible in calculating taxable income, so it has no net impact on the cost of corporate income tax. In contrast, a higher return on equity increases taxable income without an offsetting tax deduction, and therefore increases tax payable in proportion to the corporate tax rate.

Glossary

Term	Definition
ABBRR	Annual building block revenue requirement
ABS	Australian Bureau of Statistics
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AIO	annual information order
AR	allowed revenue
ATO	Australian Tax Office
capex	capital expenditure
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
MAR	maximum allowed revenue
NER	national electricity rules
NPV	net present value
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model
SaaS	Software-as-a-Service
TAB	tax asset base
TNSP	transmission network service provider
WACC	weighted average cost of capital