Draft Decision

ElectraNet Transmission Determination 2023 to 2028

(1 July 2023 to 30 June 2028)

Overview

September 2022

AUSTRALIAN ENERGY REGULATOR

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Amendment record

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Invitation for submissions

ElectraNet has the opportunity to submit a revised proposal in response to this draft decision by **2 December 2022**.

Interested stakeholders are invited to make a submission on both our draft decision and ElectraNet's revised proposal (once submitted) by **20 January 2023**.

We will consider and respond to all submissions received by that date in our final decision.

Submissions should be sent to: ElectraNet2023@aer.gov.au

Alternatively, submissions can be sent to:

Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 1313
Canberra ACT 2601

Submissions should be in Microsoft Word or another text readable document format.

The AER prefers that all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested.

Parties wishing to submit confidential information should:

1. clearly identify the information that is the subject of the confidentiality claim
2. provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submissions will be placed on the AER's website.[1]

[1] For further information regarding our use and disclosure of information provided to us, see the *ACCC/AER Information Policy* (June 2014), which is available on our website: https://www.aer.gov.au/publications/corporate-documents/accc-and-aer-information-policy-collection-and-disclosure-of-information.

Note

This Overview forms part of the AER's draft decision on ElectraNet's 2023–28 transmission determination. It should be read with all other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

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Executive summary

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia. The regulatory framework governing electricity transmission and distribution networks is the National Electricity Law and Rules (NEL and NER). Our work is guided by the National Electricity Objective (NEO).

A regulated network business must periodically apply to us for a determination of the revenue it can recover from consumers using its network. On 31 January 2022 we received a revenue proposal from South Australian electricity transmission network service provider ElectraNet, for the period 1 July 2023 to 30 June 2028 (2023–28 period).

This draft decision would currently allow ElectraNet to recover an estimated $2117.9 million ($ nominal, smoothed) from consumers over the 2023–28 period. We have accepted key elements of ElectraNet's proposal, including its total forecast capital expenditure (capex). Our review has identified other areas, including forecast operating expenditure (opex), in which ElectraNet has not satisfied us that its forecasts and calculations are appropriate and our draft decision therefore includes a lower amount. The impact of these reductions is offset by movements in market variables such as interest rates, bond rates and expected inflation. These are currently acting to increase the return on ElectraNet's regulatory asset base (RAB). Updates for these movements are a standard part of our determination process and will be made again in ElectraNet's revised proposal and our final decision. Their impact at the time of this draft decision is that total revenue would be $282.1 million (15.4%) higher than presented in ElectraNet's January proposal.

This draft decision is only the mid-point in our assessment of ElectraNet's proposal. In addition to future updates to market variables ElectraNet now has the opportunity to respond in a revised proposal that incorporates the substance of the changes required by, and addresses matters raised in, this draft decision. ElectraNet has also signalled that it may propose new expenditure following our draft decision and seek further increases to its proposed forecast opex. We consider such changes should be limited to externally driven changes that ElectraNet was not in a reasonable position to respond to at the time of its initial proposal. We also expect any such changes to be subject to further engagement by ElectraNet with consumers.

The role of consumer engagement in driving regulatory proposals

We've seen through experience that a regulatory proposal developed through genuine engagement with consumers is more likely to be largely or wholly accepted in our decisions.

As a supplement to its proposal, ElectraNet shared a report written for ElectraNet by Seed Advisory and Mark Henley (a member of ElectraNet's Consumer Advisory Panel (CAP) and reset working group) on its engagement process. That report has been useful to us in understanding how ElectraNet's engagement was received, and its outcomes valued, by the participants in its engagement process.

Key messages we have taken from the Seed Advisory report include that ElectraNet was sincere in its intention to engage collaboratively with consumers, even if it fell short of this in the early stages of engagement. The panel was encouraged and able to test the

assumptions and strategies that had underpinned the preliminary proposal. The effectiveness of ElectraNet's engagement improved over time. It moved from informing and sharing information to increased levels of involvement and genuine dialogue between ElectraNet and participants. Working group members ultimately felt able to inform and influence outcomes in ElectraNet's proposal. The conclusion reached in the report was that participants in ElectraNet's engagement process considered its proposal "capable of support", but with the clear caveat "[t]his is obviously pending the upcoming AER review".

At the draft decision stage of our review, we have not accepted all of ElectraNet's proposal. Our observations here and in our detailed reasons for decision reflect the same key themes identified in feedback to ElectraNet from the Panel and working group. These include that ElectraNet should keep its costs as low as possible, and in proposing forecast expenditure should look for improvements in its productivity and explore alternative projects and timeframes to the expenditure proposed. ElectraNet was also encouraged to put greater focus on the consumer benefits of its proposed projects and programs and test its 'bottom up' forecasts of costs with a top-down prudency review.

We expect ElectraNet's engagement to continue in its consideration of its response to this draft decision. We are encouraged by the steps ElectraNet has already identified to build on its experience in engagement on its initial proposal. We look forward to seeing the benefit of these planned improvements to its engagement strategy in its revised proposal.

Ensuring consumers pay no more than necessary for safe and reliable energy

Our decision on ElectraNet's proposal will set the revenue allowance that forms the major component of ElectraNet's transmission charges for the 2023–28 period. It provides a baseline or starting point for those five years. In considering the outcomes of this determination process, it is important to remember that over the 2023–28 period there are a number of additional mechanisms under the NER that may operate to increase ElectraNet's approved revenue and its transmission charges.

We have seen the impact of these uncertainty mechanisms during the current period. Large, Integrated System Plan (ISP) driven projects, including Project EnergyConnect and the Main Grid System Strength project, were not initially included in forecast revenue for the 2018–23 period. These projects provide benefits to consumers over the long term by allowing for additional renewables, improving security and diversity of supply and strengthening the electricity system in South Australia. Expenditure required for their delivery was added through a revenue adjustment following further consultation and assessment during that period. This impacted pricing outcomes for consumers in the current period and, as the new assets are added to ElectraNet's RAB, are a significant contributor to the expected increase in its revenue and tariffs for 2023–28.

Transmission networks will continue to play an important role in the energy market transition. This has been a key driver of ElectraNet's investment in the current period. ElectraNet's proposal notes the potential benefits of Project EnergyConnect in facilitating access to lower cost renewable generation and what this may mean for wholesale energy market prices. It is important, however, that ElectraNet continues to look beyond this to its own contribution to energy costs.

Additional projects of this nature may be added throughout the 2023–28 period. These could include projects defined by the Australian Energy Market Operator (AEMO) as necessary to action its ISP. Our draft decision also accepts two contingent projects put forward by ElectraNet as part of its 2023–28 proposal and establishes triggers that if met will allow it to apply for additional revenue for these projects throughout the period. The potential impact of uncertainty mechanisms provides important context to this decision and the weight that stakeholders should place on projected price outcomes in considering their comfort with it. Feedback to ElectraNet from its CAP and working group and submissions to this review have highlighted the impact of uncertainty mechanisms on actual expenditure and revenue within a regulatory period.

Our draft decision accepts ElectraNet's total capex forecast. ElectraNet proposed a reduction of 51% from the actual capex it expects to have incurred by the end of the current period. Much of this reduction reflects the higher augmentation capex incurred in the current period to deliver the contingent projects discussed above. Contingent projects are again a feature of ElectraNet's 2023–28 proposal. No new augmentation projects have been included in its starting capex forecast. ElectraNet's overall capex has, however, been trending down over time and from a top-down perspective it is performing well. Its proposed capex forecast for 2023–28 is 37% lower than is average actual capex over the previous 3 regulatory periods, even with contingent projects considered.

A key focus of our capex review was the economic risk-based methodology ElectraNet relied upon to forecast investment in replacement and refurbishment of assets to maintain safe, reliable and secure supply on its network. These categories make up just over 50% of ElectraNet's total capex forecast for 2023–28. ElectraNet has adopted a prudent forecasting methodology that is largely consistent with guidance provided in our 2019 *Industry Practice application note for asset replacement planning*. However, we expect to see continued improvements in ElectraNet's economic modelling of costs and benefits for the purposes of delivering its capex program within the 2023–28 period and developing forecasts for its next revenue proposal.

Our draft decision is not to accept ElectraNet's proposed opex forecast. If we apply our updated inflation numbers to ElectraNet's proposal to compare the two on like-for-like terms, our draft decision on forecast opex is 7.4% lower than ElectraNet's proposal. Our review has identified areas in which the proposal appears to overstate expenditure needed to deliver new cyber-security and information technology projects. We have also identified areas in which ElectraNet's calculation of forecast opex appears to compensate for the same costs in multiple ways. These are issues that ElectraNet will need to address and incorporate in its revised proposal for us to accept a revised opex forecast as prudent and efficient.

In this Overview and the accompanying, detailed attachments we have set out the assessment approaches applied, and enquiries made, as part of our review, with the benefit of which we have been able to arrive at this draft decision.

1 Our draft decision

In the sections below we briefly outline what is driving ElectraNet's revenue, and the key differences between our draft decision revenue of $2117.9 million ($ nominal, smoothed) compared to its proposed $1835.9 million.

On face value, it may seem peculiar that we are determining a revenue allowance that is higher than ElectraNet initially proposed. We have carefully reviewed ElectraNet's proposal. Our draft decision accepts its proposed forecast capex but includes a lower forecast opex. However, since ElectraNet lodged its proposal, we have seen increases in interest rates. In this draft decision we have employed current interest rates rather than the placeholder values in ElectraNet's proposal. It is important that we update for the latest market data so that ElectraNet's determination reflects current financial market conditions. This enables ElectraNet to attract the capital it needs to provide the services that consumers want.

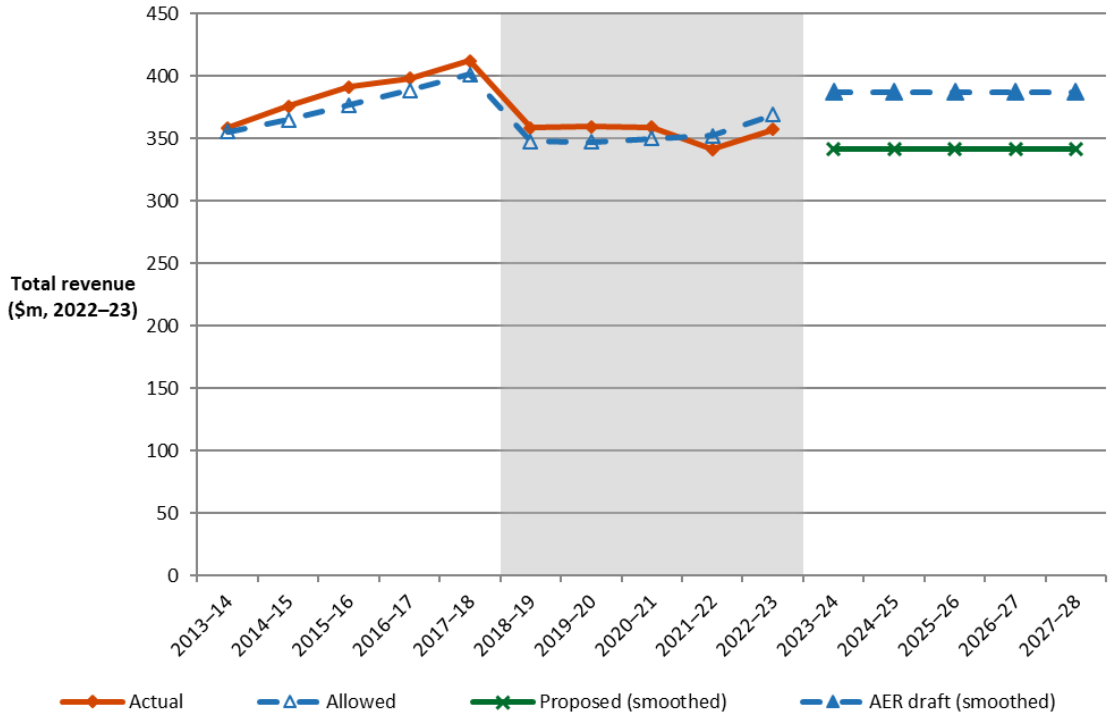
Moreover, the return investors receive on their assets should reflect the risks of their investment. These risks include the prospect of inflation eroding the investor's purchasing power. An allowance for expected inflation provides compensation for this risk.

- The return on capital building block applies a nominal rate of return to the RAB. As the nominal rate of return includes expected inflation, part of that building block compensates for expected inflation. Higher expected inflation increases the return on capital mainly due to RAB and capex.
- The return of capital building block removes expected inflation indexation of the RAB from forecast depreciation. This avoids compensation arising from the effects of inflation being double counted by including it in the return on capital building block and also as a capital gain (through the indexation of the RAB). Higher expected inflation therefore reduces the regulatory depreciation allowance.
- Other building blocks (such as operating expenditure or opex, and revenue adjustments) include an inflation component, as the costs forecast in real dollar terms are escalated to nominal dollars using expected inflation in determining the required nominal revenues. Higher expected inflation will increase opex and revenue adjustments.

1.1 What is driving revenue?

Over time, inflation impacts the spending power of money. To compare revenue from one period to the next on a like-for-like basis, in this section we use 'real' values based on a common year (2022–23) that have been adjusted for the impact of inflation instead of the nominal values above. Figure 1 shows how revenue would change over the next 5 years in real terms, under ElectraNet's proposal and this draft decision.

Figure 1 Changes in regulated revenue over time ($million, 2022-23)

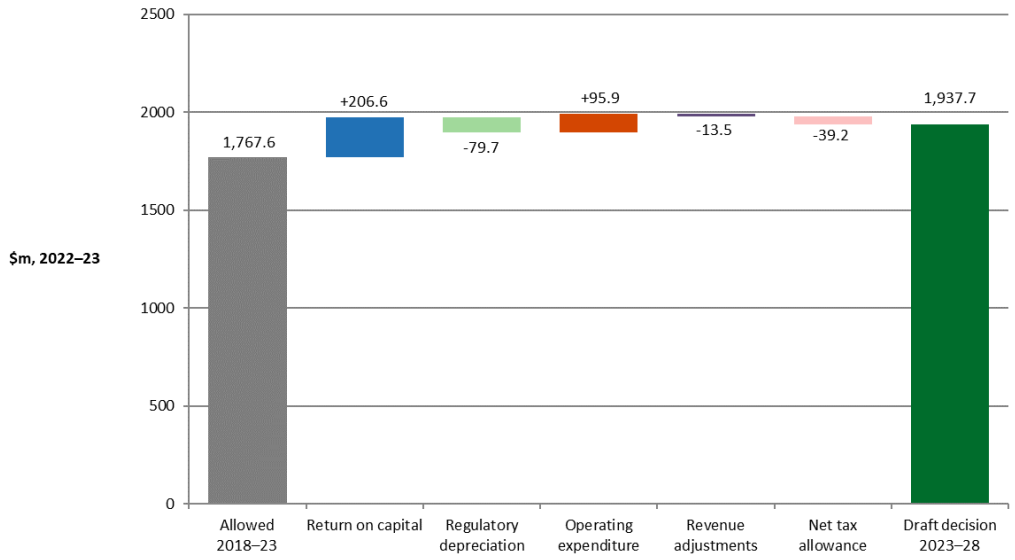


Source: AER, *Final decision, Post-tax revenue model – Heywood contingent project* for 2013–18, March 2014; AER, *Final decision, 2022–23 Return on Debt update Post-tax revenue model – (incl Project EnergyConnect)* for 2018–23, March 2022; ElectraNet, *2023–28 Revenue proposal, Post-tax revenue model* for 2023–28, January 2022; AER, *Draft decision, ElectraNet 2023–28 Post-tax revenue model* for 2023–28, September 2022.

Where the assumptions in ElectraNet's initial proposal would have resulted in total revenue that was $57.0 million (3.2%) lower than approved for the current period, the modelled impact of our draft decision is currently an increase of $170.7 million (9.7%).

Figure 2 highlights the key drivers of the change between the revenue approved for ElectraNet's current, 2018–23 period and that approved in this draft decision for 2023–28, again in real terms.

Figure 2 Change in building block revenue 2018–23 to 2023–28 ($million, 2022-23; unsmoothed)



Source: AER, *Final decision, 2022–23 return on debt update Post-tax revenue model – (incl. Project EnergyConnect)* for 2018–23, March 2022; AER, *Draft decision, ElectraNet 2023–28 Post-tax revenue model*, September 2022.

Much of the expected increase in revenue relative to the current period is driven by major capital projects in the current regulatory period—Project EnergyConnect (PEC) and the Main Grid System Strength project—which have increased ElectraNet's RAB. Current period investment in these projects has already been scrutinised through contingent project assessments and is outside the scope of the transmission determination we will make for 2023–28.

The impact of the higher RAB is compounded by the higher rate of return applied in this draft decision in accordance with our 2018 Rate of Return Instrument. Compared to our decision for the 2018–23 period, the 'return on capital' in this draft decision has increased by $206.6 million (24.0%). The rate of return calculation will be updated throughout this process. In our final decision, it will be determined in accordance with the new, 2022 rate of return instrument and will take into account the most recent information available.

RAB growth over the next 5 years would be slower under this draft decision than in the current period. Forecast capex for 2023–28 is significantly lower than that included in our decision for 2018–23. It focuses on refurbishment and replacement of aging assets and new investment in physical and cyber security, and includes little growth driven or augmentation expenditure. We have, however, approved two contingent projects proposed by ElectraNet which—if triggered—could result in additional capex during the 2023–28 period.

Forecast opex for 2023–28 is increasing by $95.9 million (17.8%) from our last decision. Some of this increase is driven by the forecast increase in circuit line length associated with the Eyre Peninsula Link and PEC. Other drivers of the increase in opex include step increases in expenditure required for insurance and to meet new cyber security requirements. There have also been changes in accounting treatment of certain services, so that these now move from capex to opex. This has increased forecast opex relative to the

current period and, because opex is recovered over a shorter period of time than capex, has contributed to increases in revenue.

Partly offsetting these drivers of increased revenue are reductions to:

- the return of capital (regulatory depreciation), which is $79.7 million (24.1%) lower than the 2018–23 period, driven primarily by a higher indexation of the RAB.
- revenue adjustments under the capital expenditure sharing scheme (CESS) and opex efficiency benefit sharing scheme (EBSS) that applied in the current and previous periods. These more than offset the introduction of the demand management innovation allowance mechanism (DMIAM) in the 2023–28 period. Total revenue adjustments in this draft decision are $13.5 million lower than included in revenue for the 2018–23 period.
- the net tax allowance, which is $39.2 million (89.7%) lower than the 2018–23 period, primarily due to applying our regulatory tax approach following the 2018 tax review.

1.2 Key differences between our draft decision and ElectraNet's proposal

Our draft decision accepts much of ElectraNet's proposal, including its total capex forecast. The main areas of difference between our calculation of approved revenue and ElectraNet's are:

- Our draft decision does not accept ElectraNet's proposed total opex forecast, with key areas of difference including its proposed opex step changes for insurance, cyber security, cloud migration and recent rule changes.
- Our draft decision includes a smaller revenue adjustment from the application of the CESS and EBSS in the current period.

Movements in market variables including expected inflation and have still led to revenue outcomes that are materially higher in our draft decision than in ElectraNet's initial proposal. These include:

- The higher rate of return and opening RAB as at 1 July 2023 adopted for the purposes of this draft decision, which are increasing the return on capital.
- Our higher estimated cost of corporate income tax amount, driven primarily by our draft decision on the rate of return on equity, which would increase ElectraNet's taxable revenue.

These are partly offset by a lower return of capital (regulatory depreciation), driven primarily by higher estimates of inflation than at the time of ElectraNet's proposal.

1.3 Estimated impact of our draft decision on network charges

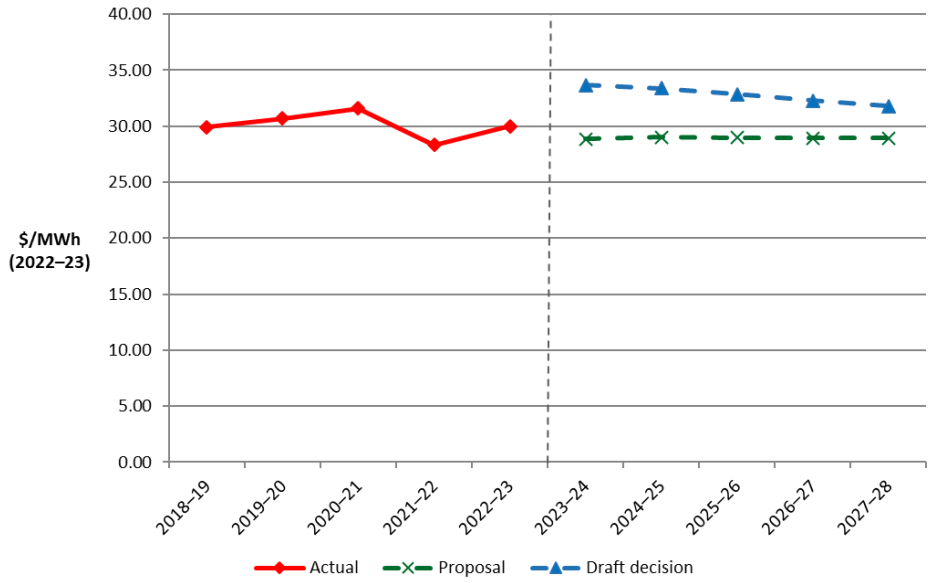
ElectraNet recovers its regulated revenue through transmission charges, determined annually by ElectraNet in accordance with the pricing methodology we approve as part of its transmission determination. Our draft decision has approved ElectraNet's proposed pricing

methodology subject to ElectraNet making some minor amendments in its revised proposal.[2] Our decision on ElectraNet's proposal will set the revenue allowance that forms the major component of ElectraNet's transmission charges for the 2023–28 period. It provides a baseline or starting point for those five years.

ElectraNet's transmission charges will also incorporate transmission charges for the Murraylink interconnector. Our revenue determination for Murraylink will be made at the same time as our determination for ElectraNet. For illustrative purposes only, we estimate the modelled impact of this draft decision would currently be an increase to average transmission charges of around 9.1% in real terms in 2027–28, compared to 2022–23 levels. This estimate is subject to ongoing revenue adjustments and changes in customer energy consumption. It includes the impact that would flow from our draft decision for Murraylink.[3] Final decision outcomes will potentially be higher again.

Figure 3 compares this indicative price path for the 2023–28 period to the previous control period.

Figure 3 Change in indicative transmission tariffs 2018–23 to 2023–28 ($2022–23) per MWh



Source: AER analysis.

Note: The price path for the transmission network is based on actual or forecast energy throughput amounts for ElectraNet's transmission network across South Australia.
Revenue used to calculate the 'Actual' indicative price path over the current (2018–23) period includes revenue from Inter- and Intra-Regional Settlements Residue collections and may not fully reflect the price path experienced by end-users.

2 AER, *Draft decision, ElectraNet transmission determination 2023 to 2028, Attachment 12, Pricing Methodology*, September 2022.

3 We estimate the indicative effect of our draft decision on forecast average transmission charges in South Australia by taking ElectraNet's annual expected MAR determined in this draft decision, and 45% of Murraylink's expected MAR determined in the 2023–28 draft decision. We then divide the combined revenue by the forecast annual energy delivered in South Australia as published by the Australian Energy Market Operator (AEMO).

In considering the potential outcomes of this determination process it is important to remember that over the 2023–28 period there are several additional mechanisms under the NER that may operate to increase or decrease ElectraNet's approved revenue. These could include projects defined by AEMO as necessary to action its ISP. Our draft decision also accepts two contingent projects put forward by ElectraNet as part of its 2023–28 proposal. The triggers we have set out for these projects in out draft decision, if met, will allow it to apply for additional revenue for these projects throughout the period, at which point proposed costs will be subject to further consultation and assessment.

Transmission charges make up around 11% of consumers' energy bills. Other components of the electricity supply chain—the cost of purchasing energy from the wholesale market (28%), SA Power Networks' electricity distribution charges (37%), environmental schemes (10%) and the costs and margins applied by electricity retailers in determining the prices they will charge consumers for supply (14%)—make up larger portions of the prices ultimately paid by consumers.[4] These sit outside the decision we are making here but will also continue to change throughout the period.

In nominal terms, which include the impact of expected inflation, the impact of this draft decision would be an increase to the current transmission component of consumers' energy bills. Final decision outcomes will change. For illustrative purposes only, the modelled impact of this draft decision on the average annual electricity bill for a residential customer in South Australia, as it is today, would be an increase of $54 (2.9%) by 2027–28 ($ nominal). For small business customers, the impact would be $132 (2.9%).

1.4 ElectraNet's consumer engagement

ElectraNet is a natural monopoly supplying an essential service. Genuine, high quality consumer engagement by ElectraNet is essential to ensuring that its proposal is driven by consumer preferences, supports delivery of services that meet the needs of its consumers, and does so at a price that is affordable and efficient. We've seen through experience that a regulatory proposal developed through genuine engagement with consumers is more likely to be largely or wholly accepted in our decisions. Our framework for considering consumer engagement in network revenue determinations is set out in the Better Resets Handbook.

In July 2021, ElectraNet established a working group of its CAP members to focus on the finalisation of ElectraNet's proposal. AER staff, and in the final stages of engagement the AER's Consumer Challenge Panel (CCP25), were able to observe some of ElectraNet's engagement with its CAP and working group.

Key themes identified in feedback to ElectraNet from the CAP and working group included that ElectraNet should keep its costs as low as possible. In proposing forecast expenditure it should look for improvements in its productivity and explore alternative projects and timeframes to the expenditure proposed. ElectraNet was also encouraged to put greater focus on the consumer benefits of its proposed projects and programs and to test its 'bottom up' forecasts of project costs with a top-down prudency review.

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4 AEMC, *Data Portal, Trends in SA supply chain components 2021/22.*

As a supplement to its proposal, ElectraNet shared a report written for ElectraNet by Seed Advisory (Peter Eben) and Mark Henley (a member of ElectraNet's CAP and working group). This report, which was reviewed and endorsed by the CAP, has been useful to us in understanding how ElectraNet's engagement was received, and its outcomes valued, by the participants in that process.

Key messages we have taken from the Seed Advisory report include that:

- ElectraNet has demonstrated sincerity and a desire to engage collaboratively with consumers. The report observed that while the process was genuinely intended to be collaborative, there were times when it fell short of this. For example, there was no deliberate co-design of the engagement process, and a missed opportunity to co-design the preliminary revenue proposal, which was developed by ElectraNet before the Working Group was first convened.
- The CAP was encouraged and able to test the assumptions and strategies that had underpinned the preliminary proposal.
- ElectraNet's engagement process and its effectiveness improved over time. A face-to-face workshop with the CAP in October 2021 provided a changing point from which engagement moved from "inform heavy" to "increased levels of involvement and genuine dialogue". The Seed Advisory report highlights this shift as an example of ElectraNet's responsiveness to CAP feedback on its engagement process. ElectraNet has also identified several further engagement opportunities. When actioned, we consider thee will be positive steps in supporting the ability of consumers to engage in this and future processes.
- Working Group members felt able to inform and influence outcomes in ElectraNet's proposal, both directly and indirectly.

Ultimately, the conclusion reached was that the proposal submitted to us in January was "capable of support" by the CAP, but with the clear caveat "[t]his is obviously pending the upcoming AER review".[5]

CCP25 similarly reserved positions on key elements of the proposal, opting not to express opinions on the overall capex and opex allowance and making elements of its advice conditional on further analysis by the AER. It observed that unless the preliminary proposal was prepared with a very high level of accuracy what may appear to be consumer impact may in fact be better understood as cost corrections. The moral hazard is that networks are incentivised to artificially inflate preliminary proposals. CCP25's sense was that reductions from the preliminary proposal were genuine. However, it cautioned against over-reliance on changes or reductions made between ElectraNet's preliminary and final proposals as evidence of impact of engagement. CCP25 considered it "important that a high level of scrutiny be applied to the remainder of the regulatory review processes".[6]

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5 ENET056 - ElectraNet - Seed Advisory - CAP Consumer Engagement Report - 28 February 2022, p. 5

6 CCP25 - Response to ElectraNet's proposal - 11 May 2022, p. 4.

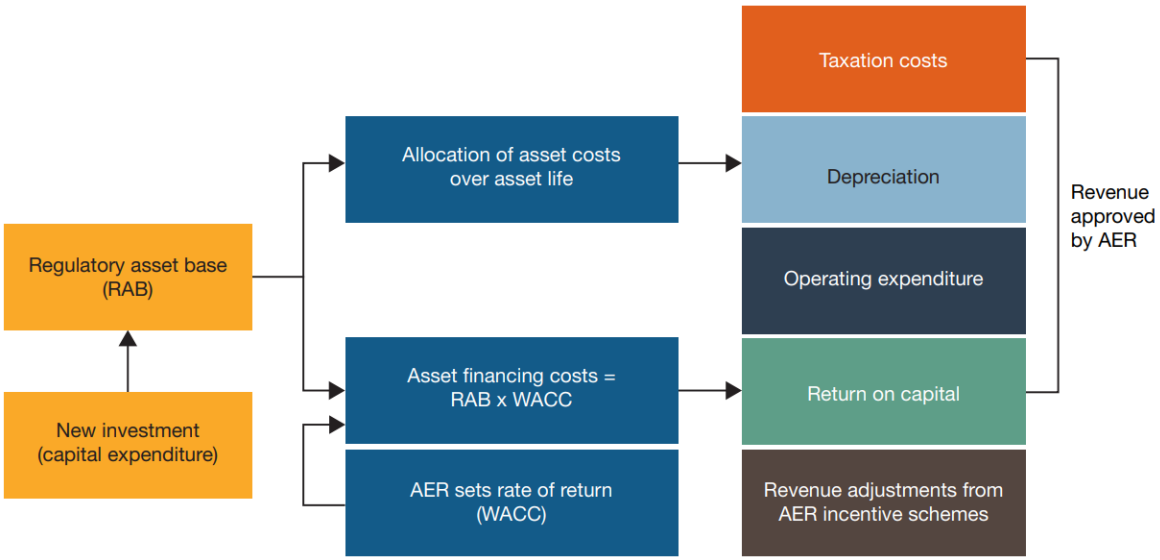
2 Key components of our draft decision on revenue

The foundation of our regulatory approach is a benchmark incentive framework to setting maximum revenues: once regulated revenues are set for a five-year period, a network that keeps its actual costs below the regulatory forecast of costs retains part of the benefit. This provides an incentive for service providers to become more efficient over time. It delivers benefits to consumers as efficient costs are revealed over time and drive lower cost benchmarks in subsequent regulatory periods. By only allowing efficient costs in our approved revenues, we promote delivery of the NEO and ensure consumers pay no more than necessary for the safe and reliable delivery of electricity.

ElectraNet's proposed revenue reflects its forecast of the efficient cost of providing transmission network services over the 2023–28 period. The revenue proposal, and our assessment of it under the NEL and NER, are based on a 'building block' approach which looks at five cost components (see Figure 4):

- return on the RAB – or return on capital, to compensate investors for the opportunity cost of funds invested in this business
- depreciation of the RAB – or return of capital, to return the initial investment to investors over time
- forecast opex – the operating, maintenance and other non-capital expenses, incurred in the provision of network services
- revenue increments/decrements – resulting from the application of incentive schemes, such as the EBSS, CESS and DMIAM
- estimated cost of corporate income tax.

Figure 4 The building block model to forecast network revenue



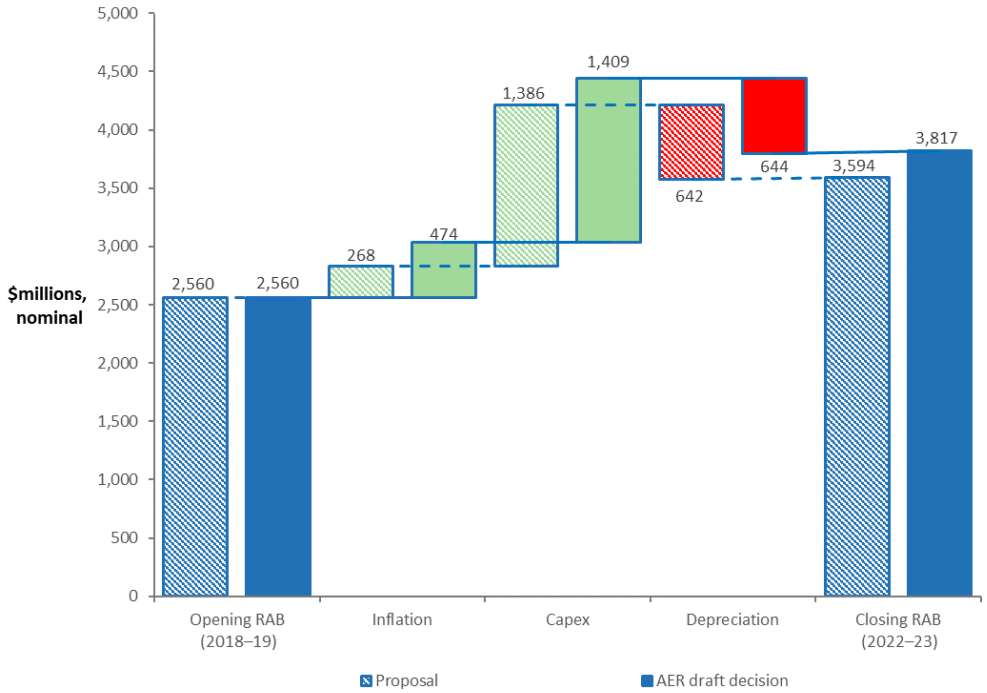
Source: AER.

2.1 Regulatory asset base

The RAB accounts for the value of regulated assets over time. To set revenue for a new regulatory period, we take the opening value of the RAB from the end of the last period and roll it forward year by year by indexing it for inflation, adding new capex and subtracting depreciation and other possible factors (such as disposals). This gives us a closing value for the RAB at the end of each year of the regulatory period. The value of the RAB is used to determine the return on capital and depreciation building blocks. It substantially impacts ElectraNet's revenue requirement, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and depreciation components of the revenue determination.

For this draft decision, we have determined an opening RAB value of $3817.2 million ($ nominal) as at 1 July 2023. This value is $223.5 million (6.2%) higher than ElectraNet's proposed opening RAB of $3593.7 million. We largely accept its proposed method for calculating the opening RAB. We made several input corrections and updates, primarily inflation, to ElectraNet's proposed roll forward model (RFM). These are not areas of disagreement between us and ElectraNet. Figure 5 shows the key drivers of the change in ElectraNet's RAB over the 2018–23 period compared to ElectraNet's proposal.

Figure 5 Key drivers of changes in the RAB over the 2018–23 period – ElectraNet's proposal compared with AER draft decision ($ million, nominal)

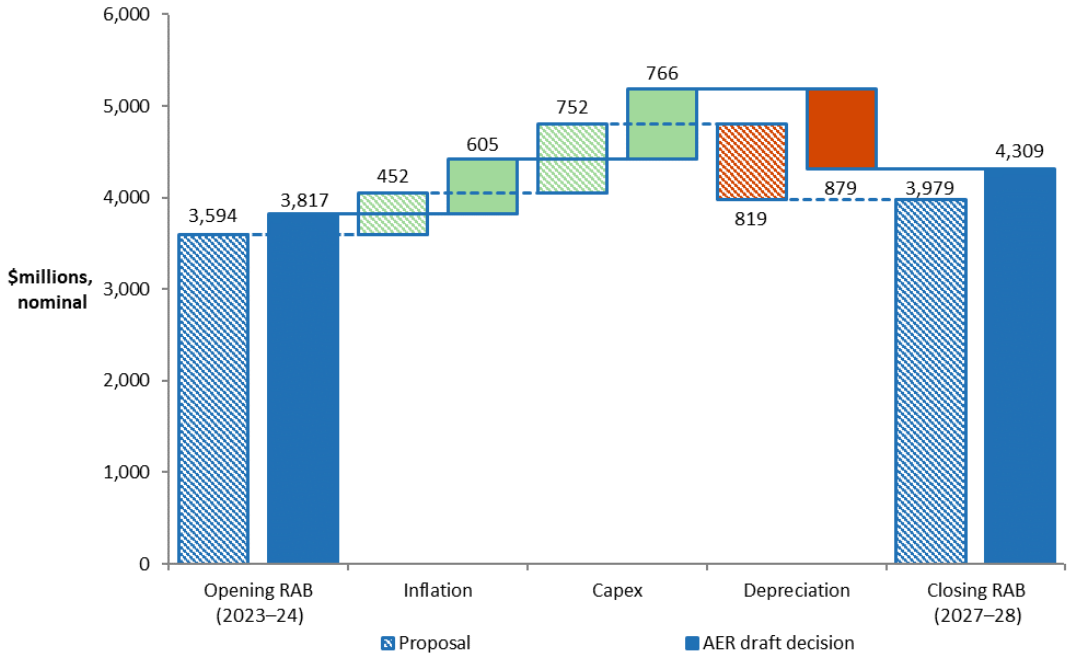


Note: The closing RAB value as at 2022–23 may not reflect the sum of the opening RAB and net additions, as it also includes some amounts for end of period RAB adjustments (not shown).

Source: ElectraNet, *2023–28 Revenue proposal, Roll forward model*, January 2022; AER, *2023–28 Draft decision, Roll forward model*, September 2022.

Figure 6 likewise shows the key drivers of the change in ElectraNet's RAB over the 2023–28 period compared to ElectraNet's proposal. Our draft decision projects an increase of $492.1 million (12.9%) to the RAB by the end of the 2023–28 period compared to the $385.5 million (10.7%) increase from ElectraNet's proposal.

Figure 6 Key drivers of changes in the RAB over the 2023–28 period – ElectraNet's proposal compared with AER's draft decision ($ million, nominal)



Source: ElectraNet, *2023–28 Revenue proposal, Post-tax revenue model*, January 2022; AER, *2023–28 Draft decision, Post-tax revenue model*, September 2022.

We have determined a projected closing RAB of $4309.3 million ($ nominal) as at 30 June 2028, which is $330.1 million (8.3%) higher than ElectraNet's proposed $3979.2 million. This increase is mainly due to our draft decision on the opening RAB as at 1 July 2023, but also reflects our draft decisions on the expected inflation rate, forecast straight-line depreciation and forecast capex (discussed in the sections below).

2.2 Rate of return and value of imputation credits

The return each business is to receive on its capital base (the 'return on capital') is a key driver of proposed revenues. We calculate the regulated return on capital by applying a rate of return to the value of the capital base.

We estimate the rate of return by combining the returns of two sources of funds for investment – equity and debt. The allowed rate of return provides the business with a return on capital to service the interest rate on its loans and give a return on equity to investors. We have applied our 2018 Instrument to estimate the rate of return for this draft decision.[7] For our final decision, we will apply the 2022 Rate of Return Instrument, which is scheduled to be published in December 2022. This may affect the estimate of the rate of return as well as the value of imputation credits.

[7] AER, *Rate of return Instrument*, December 2018. See https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/rate-of-return-guideline-2018/final-decision

For the purposes of this draft decision, the placeholder rate of return is 5.56% (nominal vanilla). Updates to risk-free rate and the return on debt have resulted in an increase of 1.27 percentage points from the placeholder estimate of 4.29% in ElectraNet's proposal.

Our estimate of expected inflation for the purposes of this draft decision is 3.00% per annum. It is an estimate of the average annual rate of inflation expected over a five-year period based on the approach adopted in our 2020 Inflation Review[8] and the forecast from the Reserve Bank of Australia's August 2022 Statement on Monetary Policy. This is a higher estimate of inflation than used in ElectraNet's proposal (2.40%).

These variables will be updated again in ElectraNet's revised proposal and in our final decision, which is part of our standard process.

Both ElectraNet's proposal and our draft decision apply a value of imputation credits (gamma) of 0.585 as set out in the 2018 Instrument.[9]

2.3 Regulatory depreciation

Depreciation is a method used in our decision to allocate the cost of an asset over its useful life. It is the amount provided so capital investors recover their investment over the economic life of the asset (otherwise referred to as 'return of capital'). When determining ElectraNet's total revenue, we include an amount for the depreciation of the projected RAB. The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

Our draft decision determines a regulatory depreciation amount of $274.3 million ($ nominal) for the 2023–28 period. This is a reduction of $92.2 million (25.2%) from ElectraNet's proposal of $366.5 million.

The key reason for the reduction from ElectraNet's proposal is our higher expected inflation rate for the 2023–28 period. This increases the adjustment for indexation of the RAB that is offset against straight-line depreciation in determining regulatory depreciation. Forecasts of expected inflation and components that make up the projected RAB will be updated again in ElectraNet's revised proposal and our final decision.

2.4 Capital expenditure

Capital expenditure (capex)—the capital costs and expenditure incurred in the provision of prescribed transmission services—mostly relates to assets with long lives, the costs of which are recovered over several regulatory control periods. Forecast capex directly affects the size of the RAB and the revenue generated from the return on capital and depreciation building blocks.

Our draft decision is to accept ElectraNet's total forecast capex of $696 million ($2022-23) for the 2023-28 period.

From a top-down perspective, ElectraNet's capex is trending downwards. As shown in Figure 7, the forecast capex approved in this draft decision is 51% lower than that expected to be

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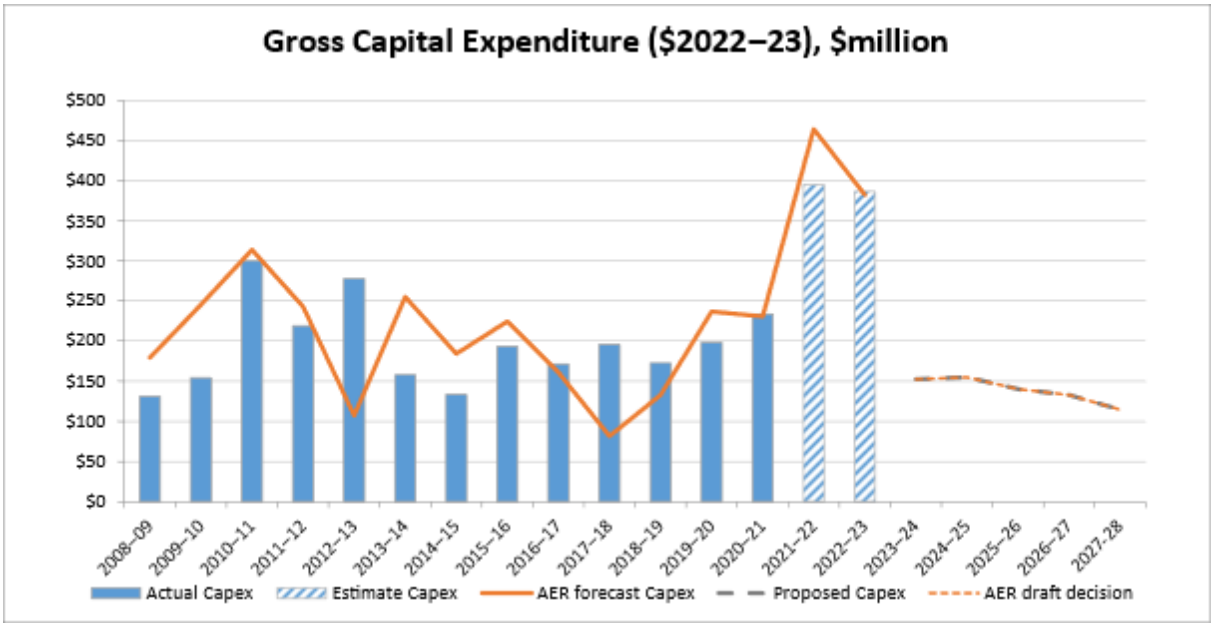
8 AER, *Final position – Regulatory treatment of inflation*, December 2020.

9 AER, *Rate of return Instrument, Explanatory Statement*, December 2018, pp. 307–382.

incurred by the end of the current regulatory control period. ElectraNet's proposed capex is also 37% lower than the average actual capex incurred (and expected to be incurred) over the past three regulatory control periods from 2008/09.[10]

Figure 7 Historical and forecast capex ($million, 2022-23)



Source: AER final decision PTRM and RFM for previous regulatory periods, including updates for appeals; ElectraNet, ENET023 - ElectraNet - PTRM 2023–28, 31 January 2022; ElectraNet 2024-28 Reset RIN submissions; AER analysis.

Our draft decision is on the total forecast capex in ElectraNet's proposal. It does not, and is not required to, approve specific projects or an allocation of forecast capex across different capex categories. However, as part of our assessment we conducted bottom-up analysis of the major replacement and security and compliance programs and projects which made up over 70% of ElectraNet's proposed forecast. Our assessment included several information requests to ElectraNet to obtain more detailed cost estimates and an understanding as to the basis of the capex forecasts.[11]

ElectraNet's capex forecast adopts an economic risk-based methodology to determine the investment needed to maintain the safety, reliability and security of electricity supply on its network. This methodology was a focus of our review as it determines whether ElectraNet has identified the projects and required work that is prudent to maintain the network.

We found that ElectraNet has adopted a prudent methodology that ensures that its capital investment decisions are justified and have regard to all relevant costs and benefits. This approach accords with our 2019 *Industry Practice application note for asset replacement planning* in terms of the application of risk-based cost-benefit analysis, the identification of projects, and the relevant identification of the consequences of asset failure in terms of

10 AER final decision PTRM and RFM for previous regulatory periods, including updates for appeals; ElectraNet, *ENET023 - ElectraNet - PTRM 2023–28*, 31 January 2022 and *ElectraNet 2024-28 Reset RIN,* and AER analysis.

11 ElectraNet, *Information request #1*, dated 18 February 2022; *Information request #5*, dated 25 March 2022 and *Information request #15*, dated 23 May 2022.

network safety, reliability and security. In this regard, it is consistent with good industry practice. We consider that ElectraNet has estimated the likely realistic costs of its replacement projects and programs, and that it has an incentive to keep its cost estimates within a reasonable range.

Our review has also identified improvements that could be made to the approach adopted by ElectraNet in the economic modelling that supports its expenditure forecasts. These findings apply to ElectraNet's forecast asset replacement and refurbishment program, which is the largest component of ElectraNet's total capex forecast. We consider other transmission network services providers would also benefit from further consideration of the approach taken to modelling the economic benefits of replacement capex programs.

Continued, concerted effort by ElectraNet to identify and achieve efficiencies in its forecasting, planning and delivery of underlying capex programs is critical in the context of potential augmentation projects that may be required during the 2023-28 period. Our draft decision approves two of the three contingent projects proposed by ElectraNet. The efficient costs of these projects will be fully assessed if they are triggered:

- Eyre Peninsula Upgrade – to upgrade the northern section of the Eyre Peninsula line from 132 kV to 275 kV to serve higher loads, which is accommodated in the design and/or augmentation of power transfer capacity between Davenport and Cultana ($50-$150 million)
- Network Power Quality Remediation – to install equipment to maintain power quality standards across the transmission network in relation to voltage harmonic requirements ($30-$60 million).

Having tested both of these with the benefit of further information from, and discussion with, ElectraNet, we are satisfied that these projects may be reasonably required to be undertaken in order to maintain the quality, reliability and security of supply, or to meet or manage the expected demand for transmission services over the 2023–28 period.[12] We have, however, included amended triggers for these events to more specifically target the risk it has been established these projects would address.

We have not approved the third contingent project ElectraNet proposed, which was for an interconnector upgrade to increase the inter-regional transfer capacity of Project EnergyConnect and the Heywood interconnector ($100-$150 million). ElectraNet's proposed capex solution is a large battery, sized to increase the capability of the interconnector by 100 to 150 Megawatts. We consider ElectraNet's proposed Interconnector Upgrade contingent project should not be classified as a contingent project for the 2023–28 regulatory control period. We do not consider this project may be reasonably required to be undertaken to maintain the quality, reliability and security of supply, or to meet or manage the expected demand for transmission services over the 2023–28 period.[13]

Whilst we acknowledge that ElectraNet's proposed triggers for this contingent project includes a successful completion of a RIT-T, we do not consider that the proposed contingent project is likely to be required during the 2023–28 regulatory control period. We

12 NER, cl. 6A.8.1(b)(1).

13 NER, cl. 6A.8.1(b)(1).

do not consider that the project is probable during the 2023–28 period because ElectraNet has not demonstrated the need for the project before 2028.

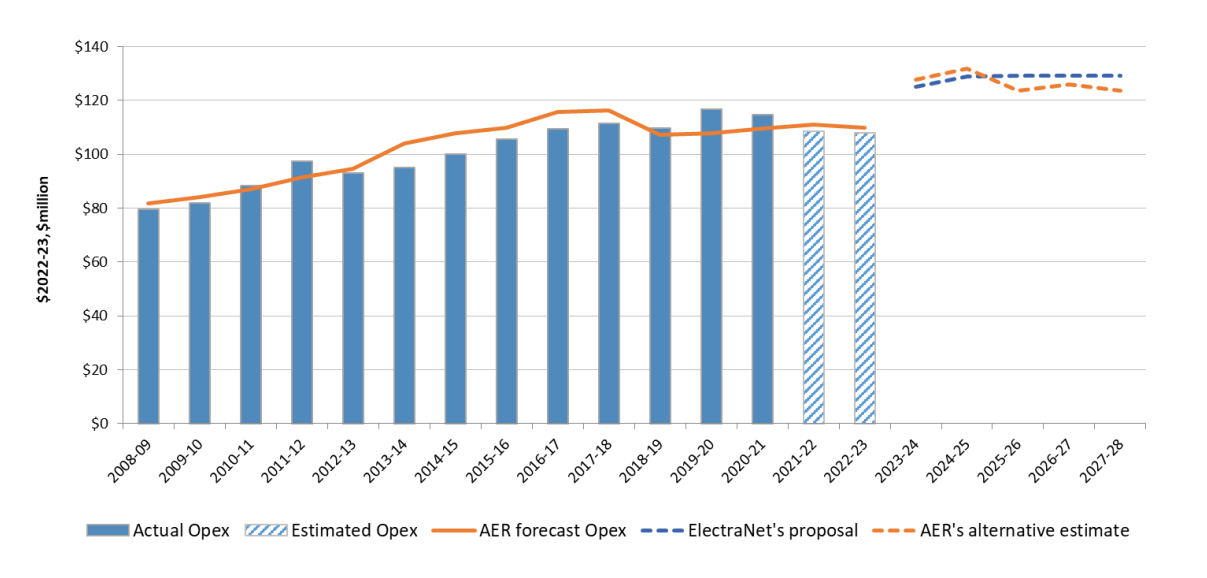
2.5 Operating expenditure

Operating expenditure (opex) is the operating, maintenance and other non-capital expenses incurred in the provision of ElectraNet's prescribed transmission services.

Our draft decision is not to accept ElectraNet's proposed opex forecast of $641.8 million ($2022–23). Our draft decision includes a lower forecast of $633.0 million, a reduction of $8.8 million (1.4%) from ElectraNet's proposal. Our inflation updates significantly mask the magnitude of the difference between our alternative estimate of total opex and ElectraNet's proposal. If we apply our inflation numbers to ElectraNet's proposal to compare the two on a like-for-like basis, our alternative estimate is 7.4% lower. Expected inflation will be updated again in our final decision.

Figure 8 compares our draft decision, ElectraNet's proposal, and ElectraNet's forecast and actual opex in the current and previous periods.

Figure 8 Historical and forecast opex ($million, 2022–23)



Source: ElectraNet, Regulatory accounts 2008–09 to 2020–21; ElectraNet, 2024–2028 Revenue proposal – Updated opex model, 18 May 2022; AER, Revenue determination, PTRM (multiple periods 2008–13, 2013–18, 2018–22, 2023–28); AER analysis.
Note: Include debt raising costs and movements in provisions.

The total forecast opex in this draft decision is 13.6% higher than ElectraNet's expected, actual opex by the end of the current period. Key drivers of this increase include the higher output growth resulting from an expected total increase in circuit line length of 779 km associated with Project EnergyConnect and Eyre Peninsula Link. Increasing insurance and cyber security costs relative to the current period are also putting upwards pressure on ElectraNet's opex requirements.

Our lower alternative total opex forecast results primarily from our draft decision not to accept $36.8 million of the $114.7 million in step changes included in ElectraNet's proposal. We have not included opex for ElectraNet's IT cloud migration ($9.0 million) and rule changes ($3.9 million) step changes. We have also included a lower forecast for the insurance and cyber security step changes.

Our draft decision applies a larger adjustment for forecast productivity growth of 0.5% per year, consistent with our 2021 Annual Benchmarking Report, compared to ElectraNet's proposed 0.3%. This reduces our alternative estimate of total opex by $7.8 million. In contrast, ElectraNet included forecast productivity growth of 0.3% per year in its opex forecast,[14] which reduced its opex forecast by $4.4 million.[15] Offsetting this is higher real price growth than included in ElectraNet's proposal, informed by the wage price index growth forecast by our consultant KPMG.

The base year opex we have adopted in this draft decision is also $35.4 million (6.6%) higher than ElectraNet's proposal because we have used updated inflation forecasts. The updated actual CPI for 2021–22 applied in this draft decision is 6.1% and forecast CPI for 2022–23 is 6.2%. These are materially higher than the CPI estimate of 2.45% used by ElectraNet for both years in its proposal. In the final decision, we will update inflation numbers to reflect the most up-to-date CPI forecast at the time of publication. Our use of updated inflation data for the purposes of this draft decision is masking the magnitude of the difference between our alternative estimate of total opex and ElectraNet's proposal. If we apply our updated inflation numbers to ElectraNet's proposal to compare the two on like-for-like terms, the difference between that proposal and our alternative estimate becomes 7.4%.

2.6 Revenue adjustments

Our calculation of ElectraNet's total revenue includes adjustments under the EBSS and CESS that applied in its determination for the current period. These mechanisms provide a continuous incentive for ElectraNet to pursue efficiency improvements in opex and capex, and a fair sharing of these between ElectraNet and its users. Our draft decision also determines an amount for the DMIAM, which aims to encourage ElectraNet to expand and share its knowledge and understanding of innovative demand management projects that may reduce long-term network costs.

Our draft decision is to approve carryover amounts (reductions to forecast revenue) totalling –$19.8 million ($2022–23) from the application of the EBSS and CESS in the current period.

Our draft decision includes an EBSS adjustment of –$11.0 million from the application of the EBSS in the 2018–23 period, compared to the $0.1 million adjustment in ElectraNet's January proposal. The difference reflects adjustments we have made to account for recent updates to actual and forecast inflation and the inclusion of ElectraNet's 2021–22 insurance

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14 ElectraNet, *2024–28 Revenue proposal – Operating Expenditure Model - ElectraNet - 200121_ENet_Opex Forecast 2024 - 28 _revised for IRs 7 11 12*, 18 May 2022.

15 ElectraNet, *Revenue Proposal 2023–28, Attachment 6: operating expenditure*, 31 January 2022, p. 19; ElectraNet, *2024–28 Revenue proposal – Operating Expenditure Model - ElectraNet - 200121_ENet_Opex Forecast 2024 - 28 _revised for IRs 7 11 12*, 18 May 2022.

cost pass through. This information was not available at the time ElectraNet submitted its proposal.

We have included a CESS adjustment of –$8.8 million (a reduction to revenue), compared to the –$11.1 million adjustment in ElectraNet's January proposal. The difference is because we applied updated modelling inputs, including inflation and the rate of return. After submission of the January proposal, ElectraNet wrote to us seeking to change its proposed application of the CESS.[16] ElectraNet submitted that the deferral adjustment for Project EnergyConnect in its January proposal is incorrect and should not be made. The effect of this would be to replace the $11.1 million negative adjustment proposed with a $7.3 million positive one (a potential increase totalling $18.4 million from its January proposal). Having reviewed ElectraNet's submission, we have not removed the Project EnergyConnect deferral adjustment from the CESS carryover calculation. We consider the $60 million Project EnergyConnect deferral is material. The reasons for our decision on the CESS are set out in Attachment 9.

Our draft decision also includes an allowance of $2.2 million ($2022–23) for the DMIAM, which will apply to ElectraNet for the first time in the 2023–28 period. ElectraNet proposed an allowance under the DMIAM, but it did not include the amount in the calculation of total revenue in its proposal. In each year of the 2023–28 period, ElectraNet will submit demand management projects for approval under the DMIAM. Any part of the $2.2 million that is not spent on an approved project will be returned to consumers in the subsequent regulatory control period.

2.7 Corporate income tax

Our determination of the total revenue requirement includes the estimated cost of corporate income tax for 2023–28 period. Under the post-tax framework, this amount is calculated as part of the building blocks assessment using our PTRM.

Our draft decision determines an estimated cost of corporate income tax amount of $5.2 million ($ nominal) for ElectraNet over the 2023–28 period. This is an increase from the zero amount in ElectraNet's proposal which assumed its forecast tax expenses would exceed its revenue for tax assessment purposes over the 2023–28 period. This increase is primarily due to our draft decision on the rate of return on equity, which in turn increased ElectraNet's taxable revenue and therefore the cost of corporate income tax.[17]

16 ElectraNet, *Application of the CESS*, 9 May 2022.

17 All else being equal, a higher rate of return on equity will increase the cost of corporate income tax because it increases the return on equity, a component of taxable revenue.

3 Incentive schemes and allowances

Incentive schemes are a component of incentive-based regulation and complement our approach to assessing efficient costs. They provide important balancing incentives under network determinations, encouraging businesses to pursue expenditure efficiencies while maintaining the reliability and overall performance of its network.

Our draft decision is that the following incentive schemes and allowances will apply to ElectraNet in the 2023–28 period:

- Efficiency benefit sharing scheme (EBSS). This provides a continuous incentive to pursue efficiency improvements in opex and provide for a fair sharing of these between ElectraNet and network users. Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods.
- Capital expenditure sharing scheme (CESS). This incentivises efficient capex throughout the period by rewarding efficiency gains and penalising efficiency losses, each measured by reference to the difference between forecast and actual capex. Consumers benefit from improved efficiencies through a lower RAB, which is reflected in regulated revenues for future periods.
- Service target performance incentive scheme (STPIS). This balances incentives to reduce expenditure with the need to maintain or improve service quality, by providing financial incentives to maintain and improve service performance where consumers are willing to pay for these improvements. Once improvements are made, consumers benefit as the benchmark performance targets will be tightened in future years.
- Demand management innovation allowance mechanism (DMIAM). This funds research and development in demand management projects that have the potential to reduce long term network costs.

Our draft decision on the application of these schemes and allowances is consistent with the position taken in our Framework and Approach paper and is set out in Attachments 8-11 of this draft decision.

At the time of this draft decision, we have not fully resolved the application of the market impact component (MIC) of the STPIS to ElectraNet. The MIC provides an incentive to ElectraNet to minimise the impact of transmission outages that can affect wholesale market outcomes. It measures performance against the number of dispatch intervals where an outage on the TNSP's network results in a network outage constraint[18] with a marginal value greater than $10/MWh.[19]

In our January 2022 final decision on the transmission determination for AusNet Services, released just prior to submission of ElectraNet's proposal, we considered the impact changes in the energy mix within the NEM has had on the way semi-dispatch generators bid into the market. We recognised the potential for generator bidding behaviour to appear as a

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18 Network outage constraints are constraint sets that are applied in AEMO's market systems to manage power flows during outages so that the power system remains secure during an outage.

19 AER, *Final – Service Target Performance Incentive Scheme,* October 2015, Appendix C.

constraint when this is not within a transmission network service provider's control. In such cases, we considered these should be excluded from MIC performance.

ElectraNet has not been able to submit historical data on this issue in time for our draft decision. It has suggested that its circumstances may be different to AusNet's and intends to investigate and consider this further in its revised revenue proposal.[20]

[20] ElectraNet, Response to AER IR#04, - STPIS - Market Impact Component (MIC) target setting, 10 August 2022.

A Constituent decisions

Our draft decision on ElectraNet's transmission revenue determination for the 2023–28 regulatory control period includes the following constituent components:[21]

Constituent component
In accordance with clause 6A.14.1(1)(i) of the NER, the AER's draft decision is not to approve the total revenue cap set out in ElectraNet's building block proposal. Our decision on ElectraNet's total revenue cap is $2117.9 million ($ nominal, smoothed) for the 2023–28 regulatory control period. This decision is discussed in Attachment 1 of this draft decision.
In accordance with clause 6A.14.1(1)(ii) of the NER, the AER's draft decision is not to approve the maximum allowed revenue (MAR) for each regulatory year of the regulatory control period set out in ElectraNet's building block proposal. Our decision on ElectraNet's MAR for each year of the 2023–28 regulatory control period is set out in Attachment 1 of this draft decision.
In accordance with clause 6A.14.1(1)(iii) of the NER, the AER's draft decision is to apply the service component, network capability component and market impact component of Version 5 of the service target performance incentive scheme (STPIS) to ElectraNet for the 2023–28 regulatory control period. The values and parameters of the STPIS that are approved by the AER are set out in Attachment 10 of this draft decision.
In accordance with clause 6A.14.1(1)(iv) of the NER, the AER's draft decision on the values that are to be attributed to the parameters for the efficiency benefit sharing scheme (EBSS) that will apply to ElectraNet in respect of the 2023–28 regulatory control period is set out in Attachment 8 of this draft decision.
In accordance with clause 6A.14.1(1)(v) of the NER, the AER's draft decision is to approve the commencement and length of the regulatory control period as ElectraNet proposed in its revenue proposal. The regulatory control period will commence on 1 July 2023 and the length of this period is five years, expiring on 30 June 2028.
In accordance with clause 6A.14.1(2)(i) of the NER and acting in accordance with clause 6A.6.7(c), the AER's draft decision is to accept ElectraNet's proposed total forecast capital expenditure of $696 million ($2022). The reasons for our draft decision are set out in Attachment 5 of this draft decision.
In accordance with clause 6A.14.1(3)(ii) of the NER and acting in accordance with clause 6A.6.6(d), the AER's draft decision is to not accept ElectraNet's proposed total forecast operating expenditure inclusive of debt raising costs of $641.8 million ($2022). Our draft decision therefore includes a substitute estimate of ElectraNet's total forecast operating expenditure for the 2023–28 regulatory control period of $633.0 million ($2022). The reasons for our draft decision are set out in Attachment 6 of this draft decision.
In accordance with clause 6A.14.1(4)(i) of the NER, the AER's draft decision is that the following projects are contingent projects for the purpose of this revenue determination for ElectraNet: • Eyre Peninsula Upgrade • Network Power Quality Remediation. The AER's draft decision is that ElectraNet's proposed Interconnector Upgrade project is not a contingent project for the purposes of the revenue determination for ElectraNet. This is set out in Attachment 5 of this draft decision.
In accordance with clause 6A.14.1(4)(ii) of the NER, the AER's draft decision is that it is satisfied that the capital expenditure in the range of $50-$150 ($nominal) for the Eyre Peninsula Upgrade contingent project and $30-60 million ($nominal) for the Network Power Quality Remediation Project as described in ElectraNet's revenue proposal, and as determined to be contingent projects by the AER, reasonably reflects the capital expenditure criteria, taking into account the capital expenditure factors. This is set out in Attachment 5 of this draft decision.
In accordance with clause 6A.14.1(4)(iii) of the NER, the AER's draft decision on the trigger events for the two contingent projects is set out in Attachment 5 of this draft decision and includes amendments to both triggers proposed by ElectraNet.

21 NEL, s. 16(1)(c).

Constituent component
In accordance with clause 6A.14.1(5A) of the NER, the AER's draft decision is that version 1 of the capital expenditure sharing scheme (CESS) as set out in the Capital Expenditure Incentives Guideline will apply to ElectraNet in the 2023–28 regulatory control period. This is set out in Attachment 9 of this draft decision.
In accordance with clause 6A.14.1(5A) of the NER, the AER's draft decision is that the demand management innovation allowance mechanism (DMIAM) for electricity transmission networks will apply to ElectraNet in the 2023–28 regulatory control period. This is set out in Attachment 11 of this draft decision.
In accordance with clause 6A.14.1(5B) and 6A.6.2 of the NER, the AER's draft decision is that the allowed rate of return for the 2023-24 regulatory year is 5.56% (nominal vanilla), as set out in Attachment 3 of this draft decision. The rate of return for the remaining regulatory years 2024–28 will be updated annually because our decision is to apply a trailing average portfolio approach to estimating debt which incorporates annual updating of the allowed return on debt.
In accordance with clause 6A.14.1(5C) of the NER, the AER's draft decision is that the value of imputation credits as referred to in clause 6A.6.4 is 0.585. This is set out in Attachment 3 of this draft decision.
In accordance with clause 6A.14.1(5D) of the NER, the AER's draft decision, in accordance with clause 6A.6.1 and schedule 6A.2, is that the opening regulatory asset base (RAB) as at the commencement of the 2023–28 regulatory control period, being 1 July 2023, is $3817.2 million ($ nominal). This is set out in Attachment 2 of this draft decision.
In accordance with clause 6A.14.1(5E) of the NER, the AER's draft decision is that the depreciation approach based on forecast capital expenditure (forecast depreciation) is to be used to establish the RAB at the commencement of ElectraNet's regulatory control period as at 1 July 2028. This is set out in Attachment 2 of this draft decision. We also note that the regulatory depreciation amount that is approved in this decision is $274.3 million ($ nominal) for the 2023–28 regulatory control period.
In accordance with clause 6A.14.1(8) of the NER, the AER's draft decision is to approve ElectraNet's proposed pricing methodology, subject to ElectraNet making editorial amendments in its revised proposal. This is set out in Attachment 12 of this draft decision.
In accordance with clause 6A.14.1(9) of the NER, the AER's draft decision is to apply the following nominated pass through events to ElectraNet for the 2023–28 regulatory control period in accordance with clause 6A.7.3(a1)(5): • terrorism • natural disaster • insurance coverage • insurer's credit risk. These events have the definitions set out in Attachment 13 of this draft decision.

B List of submissions

We received three submissions in response to the AER's issues paper and ElectraNet's 2023–28 transmission revenue proposal. These are listed below.

Stakeholder	Date
Consumer Challenge Panel, sub-panel 25	11 May 2022
ElectraNet	9 May 2022
Department of Energy and Mining - SA	21 June 2022

Glossary

Term	Definition
2018 Instrument	2018 Rate of Return Instrument
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Capex	Capital expenditure
CESS	Capital expenditure sharing scheme
CPI	Consumer price index
CCP25	Consumer Challenge Panel, sub-panel 25
DMIAM	Demand management innovation allowance mechanism
EBSS	Efficiency benefit sharing scheme
Gamma	Value of imputation credits
ISP	Integrated system plan
MAR	Maximum allowed revenue
MWh	Megawatt hours
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
Opex	Operating expenditure
PTRM	Post-tax revenue model
RAB	Regulatory asset base
RIN	Regulatory information notice
RFM	Roll forward model
STPIS	Service target performance incentive scheme