

Draft Decision

Murraylink Transmission Determination 2023 to 2028

(1 July 2023 to 30 June 2028)

Attachment 2 Regulatory asset base

September 2022

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Tel: 1300 585 165

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Note

This attachment forms part of the AER’s draft decision on Murraylink’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

Attachment 8 – Efficiency benefit sharing scheme

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2 Regulatory asset base

The regulatory asset base (RAB) is the value of the assets used by Murraylink to provide prescribed transmission services.¹ Our revenue determination specifies the RAB as at the commencement of the regulatory control period and the appropriate method for the indexation of the RAB.² The indexation of the RAB is one of the building blocks that form the annual building block revenue requirement for each year of the 2023–28 regulatory control period.³ We set the RAB as the foundation for determining a transmission network service provider’s (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.⁴

This attachment presents our draft decision on the opening RAB value as at 1 July 2023 for Murraylink and our forecast of its RAB values over the 2023–28 period. It also presents our draft decision for establishing the RAB as at the commencement of the 2028–33 period using depreciation that is based on forecast capital expenditure (capex).⁵

2.1 Draft decision

We determine an opening RAB value of \$130.7 million (\$ nominal) as at 1 July 2023 for Murraylink. This value is \$13.9 million (11.9%) higher than Murraylink’s proposed opening RAB of \$116.8 million as at 1 July 2023.⁶ This increase is largely due to the updates we made to the consumer price index (CPI) inputs for 2021–22 and 2022–23 in the roll forward model (RFM) which were omitted in Murraylink’s proposal:⁷

- Our draft decision determines a CPI for 2021–22 of 3.5% based on the 2021 December quarter CPI published by the Australian Bureau of Statistics (ABS). The resulting indexation on the RAB for 2021–22 is \$4.3 million in our draft decision, compared to Murraylink’s proposed value of zero.
- We have also included an estimated CPI for 2022–23 using the latest Reserve Bank of Australia (RBA) forecast of 7.8% as published in its *Statement on Monetary Policy*.⁸ The resulting indexation on the RAB is \$9.2 million for 2022–23 in our draft decision, compared to Murraylink’s proposed value of zero. This value will be updated again to reflect the actual CPI published by the ABS in our final decision.

¹ NER, cl. 6A.6.1(a).

² NER, cll. 6A.4.2(3A) and (4).

³ NER, cll. 6A.5.4(a)(1) and (b)(1).

⁴ NER, cll. 6A.5.4(a)(2) and (3).

⁵ NER, cl. 6A.14.1(5E).

⁶ Murraylink, *2023–28 Revenue proposal, Roll forward model*, January 2022.

⁷ Murraylink’s proposal did not include inflation inputs for 2021–22 and 2022–23 in its RFM. As a result, the RFM applies an inflation rate of zero for indexation purposes.

⁸ RBA, *Statement on Monetary Policy, Appendix: Forecasts*, August 2022.

As the RAB must be maintained in real terms by indexing for inflation,⁹ the updated CPI inputs for these years result in a higher opening RAB value as at 1 July 2023 by \$14.1 million (12.1%).

We largely accept Murraylink’s proposed method for calculating the opening RAB. However we have made the following revisions to Murraylink’s other proposed inputs to the RFM which also affected the opening RAB value as at 1 July 2023:

- updated the nominal weighted average cost of capital (WACC) for 2022–23 following the most recent return on debt update in the 2018–23 post-tax revenue model (PTRM)
- applied the December quarter CPI for 2018–19, 2019–20 and 2021–22 to be consistent with the method specified in the 2018–23 transmission determination.¹⁰

To determine the opening RAB as at 1 July 2023, we have rolled forward the RAB over the 2018–23 period to determine a closing RAB value at 30 June 2023 in accordance with our RFM.¹¹ This roll forward process includes an adjustment at the end of the 2018–23 period to account for the difference between actual 2017–18 capex and the estimate approved in the 2018–23 determination.¹² All other adjustments are applied as part of the final year adjustments at 30 June 2023 to establish the opening RAB value at 1 July 2023.

Table 2.1 sets out our draft decision on the roll forward of Murraylink’s RAB over the 2018–23 period.

⁹ NER, cll 6A.5.4(b)(1) and 6A.6.1(e)(3).

¹⁰ AER, *Murraylink 2018–23 – Transmission determination*, April 2018, p. 6.

¹¹ AER, *Electricity transmission network service providers: Roll forward model (version 4.1)*, May 2022.

¹² The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2018–23 determination.

Table 2.1 AER's draft decision on Murraylink's RAB for the 2018–23 regulatory control period (\$ million, nominal)

	2018–19	2019–20	2020–21	2021–22 ^a	2022–23 ^b
Opening RAB	112.8	119.1	121.9	122.2	122.4
Capital expenditure ^c	10.5	6.9	5.8	2.6	3.8
Inflation indexation on opening RAB ^d	2.0	2.2	1.0	4.3	9.5
Less: straight-line depreciation ^e	6.2	6.3	6.5	6.7	8.8
Interim closing RAB	119.1	121.9	122.2	122.4	126.9
Difference between estimated and actual capex in 2017–18					2.8
Return on difference for 2017–18 capex					1.0
Closing RAB as at 30 June 2023					130.7

Source: AER analysis.

- (a) Based on estimated capex provided by Murraylink. We will update the RAB roll forward with actual capex in the final decision.
- (b) Based on estimated capex provided by Murraylink. We expect to update the RAB roll forward with a revised capex estimate in the final decision, and true-up the RAB for actual capex at the next reset.
- (c) As incurred, net of disposals, and adjusted for actual CPI and half-year WACC.
- (d) We will update the RAB roll forward for actual CPI for 2022–23 in the final decision.
- (e) Adjusted for actual CPI. Based on forecast as commissioned capex.

We determine a forecast closing RAB value at 30 June 2028 of \$119.2 million (\$ nominal). This is \$14.4 million (or 13.7%) higher than the amount of \$104.8 million proposed by Murraylink. Our draft decision on the forecast closing RAB reflects the amended opening RAB as at 1 July 2023, and our draft decisions on the expected inflation rate (Attachment 3), forecast depreciation (Attachment 4) and forecast capex (Attachment 5).¹³

Table 2.2 sets our draft decision on the forecast RAB values for Murraylink over the 2023–28 period.

¹³ 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 2023–28 period (Attachment 3).

Table 2.2 AER's draft decision on Murraylink's RAB for the 2023–28 regulatory control period (\$ million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Opening RAB	130.7	131.9	132.6	130.0	124.8
Capital expenditure ^a	4.5	4.6	2.8	0.8	0.9
Inflation indexation on opening RAB	3.9	4.0	4.0	3.9	3.7
Less: straight-line depreciation ^b	7.2	7.9	9.4	9.9	10.2
Closing RAB	131.9	132.6	130.0	124.8	119.2

Source: AER analysis.

- (a) As incurred, and net of forecast disposals. In accordance with the timing assumptions of the PTRM, the capex includes a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB for revenue modelling.
- (b) Based on as commissioned capex.

We determine that the forecast depreciation approach is to be used to establish the opening RAB at the commencement of the 2028–33 period for Murraylink.¹⁴ We consider this approach is consistent with the capex incentive objective in that it will provide sufficient incentives for Murraylink to achieve capex efficiency gains over the 2023–28 period. This approach is also consistent with our *Framework and Approach* paper.¹⁵

2.2 Murraylink's proposal

Murraylink used our RFM to establish an opening RAB as at 1 July 2023 and version 5 of our PTRM to roll forward the RAB over the 2023–28 period.¹⁶

Murraylink proposed an opening RAB value as at 1 July 2018 of \$112.8 million (\$ nominal). Rolling forward this RAB and using depreciation based on forecast capex (approved for the 2018–23 period), Murraylink proposed a closing RAB as at 30 June 2023 of \$116.8 million (\$ nominal).¹⁷

Table 2.3 sets out Murraylink's proposed roll forward of its RAB during the 2018–23 period.

¹⁴ NER, cl. S6A.2.2B(a).

¹⁵ AER, *Murraylink 2023–28 – Framework and approach*, July 2021, p. 21.

¹⁶ We have released a new version of the PTRM (version 5.1) in May 2022 after Murraylink submitted its revenue proposal. Our draft decision uses this updated version 5.1 PTRM.

¹⁷ Murraylink, *2023–28 Revenue proposal, Roll forward model*, January 2022.

Table 2.3 Murraylink’s proposed RAB for the 2018–23 regulatory control period (\$ million, nominal)

	2018–19	2019–20	2020–21	2021–22 ^a	2022–23 ^a
Opening RAB	112.8	118.6	121.8	122.5	118.3
Capital expenditure ^b	10.5	6.9	5.8	2.5	3.7
Inflation indexation on opening RAB	1.5	2.6	1.4	-	-
Less: straight-line depreciation ^c	6.2	6.3	6.5	6.7	8.5
Interim closing RAB	118.6	121.8	122.5	118.3	113.4
Difference between estimated and actual capex in 2017–18					2.8
Return on difference for 2017–18 capex					0.6
Closing RAB as at 30 June 2023					116.8

Source: Murraylink, *2023–28 Revenue proposal, Roll forward model*, January 2022.

- (a) Based on estimated capex.
- (b) As incurred, net of disposals, adjusted for actual CPI and half-year WACC.
- (c) Adjusted for actual CPI. Based on forecast as commissioned capex.

Murraylink proposed a forecast closing RAB as at 30 June 2028 of \$104.8 million (\$ nominal). This value reflects its proposed opening RAB as at 1 July 2023, forecast capex, expected inflation, and depreciation (based on forecast capex) over the 2023–28 period.

Table 2.4 shows its projected RAB over the 2023–28 period.

Table 2.4 Murraylink’s proposed RAB for the 2023–28 regulatory control period (\$million, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28
Opening RAB	116.8	117.8	118.2	115.5	110.3
Capital expenditure ^a	4.5	4.6	2.7	0.8	0.9
Inflation indexation on opening RAB	2.8	2.8	2.8	2.7	2.6
Less: straight-line depreciation ^b	6.3	6.9	8.3	8.7	9.0
Closing RAB	117.8	118.2	115.5	110.3	104.8

Source: Murraylink, *2023–28 Revenue proposal, Post-tax revenue model*, January 2022.

- (a) As incurred, and net of forecast disposals. Inclusive of the half-year WACC to account for the timing assumptions in the PTRM.
- (b) Based on as commissioned capex.

2.3 Assessment approach

We roll forward Murraylink’s RAB during the 2018–23 period to establish the opening RAB at 1 July 2023. This value must be adjusted for any differences in estimated and actual capex.¹⁸ It may also be adjusted to reflect any changes in the use of the assets. We may include (or remove) assets from the RAB in circumstances where the nature of assets has changed and

¹⁸ NER, cl. S6A.2.1(f)(3).

they are now contributing (or no longer contributing) to the provision of prescribed transmission services.¹⁹

To determine the opening RAB, we developed an asset base RFM that a TNSP must use in preparing its revenue proposal.²⁰ We used the RFM to roll forward Murraylink’s RAB from the beginning of the final year of the 2013–18 period,²¹ through the 2018–23 period, to the beginning of the 2023–28 period.

The roll forward for each year of the above period 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 revenue²²
- adding actual or estimated capex to the RAB for the relevant year.²³ 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.²⁴ The details of our assessment approach for capex overspend are set out in the *Capital expenditure incentive guideline*. We note that our review of past capex does not include the last two years of the 2018–23 period—these will instead be reviewed at the next reset.²⁵ We check actual capex amounts against audited regulatory accounts data and generally accept the capex reported in those accounts in rolling forward the RAB.²⁶ However, there may be instances where adjustments are required to the annual regulatory accounts data²⁷
- subtracting depreciation from the RAB for the relevant year, calculated in accordance with the rates and methodologies allowed (if any) in the transmission determination for Murraylink’s 2018–23 period.²⁸ Depreciation based on forecast or actual capex can be used to roll forward the RAB.²⁹ For this draft decision, we use depreciation based on forecast capex for rolling forward the RAB for Murraylink’s 2018–23 period.³⁰

¹⁹ NER, cl. S6A.2.1(f)(6)–(8) and S6A.2.3.

²⁰ NER, cl. 6A.6.1(b), 6A.6.1(e) and S6A.1.3(5).

²¹ The roll forward commences in the final year of the 2013–18 regulatory control period to allow us to adjust for the difference between actual 2017–18 capex and the estimated 2017–18 capex used in our 2013–18 transmission determination. This adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved in the 2013–18 determination. See NER, cl. S6A.2.1(f)(3).

²² NER, cl. 6A.6.1(e)(3).

²³ NER, cl. S6A.2.1(f)(4).

²⁴ NER, cl. S6A.2.2A. Under the NER, cl S6A.2.2A(b), the exclusion of inefficient capex could only come from there areas: overspend in capex, margin paid to third party and inappropriate capitalisation of opex as defined in cl. S6A.2.2A(c), (d) and (3) of the NER.

²⁵ NER, cl. S6A.2.2A(a1). The two year lag ensures that actual capex (instead of estimated capex) is available when the review of past capex commences.

²⁶ We will update any estimated capex with actual capex at the time of the next reset.

²⁷ For example, we make adjustments for movements in provisions if the actual capex amounts reported in the regulatory accounts include capitalised provisions.

²⁸ NER, cl. S6A.2.1(f)(5).

²⁹ NER, cl. 6A.4.2(a1).

³⁰ The use of forecast depreciation is consistent with the depreciation approach established in the transmission determination for the 2018–23 period for Murraylink. See AER, *Final decision, Murraylink transmission determination 2018–23, Attachment 2 – Regulatory asset base*, April 2018, p. 11.

Depreciation based on forecast capex will also be used for the 2023–28 period RAB roll forward at the next reset³¹

- subtracting any gross proceeds for asset disposals for the relevant year from capex to be added to the RAB.³² We check these amounts against audited regulatory accounts 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 2018–23 period.³³ The PTRM used to calculate the annual building block revenue requirement for the 2023–28 period generally adopts the same RAB roll forward approach as the RFM although the adjustments to the RAB are based on forecasts, rather than actual amounts.³⁴

The opening RAB for the 2028–33 period can be determined using depreciation based either on forecast or actual capex incurred during the 2023–28 period.³⁵ To roll forward the RAB using depreciation based on forecast capex, we would use the forecast depreciation contained in the PTRM for the 2023–28 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 2023–28 period.

Our decision on whether to use actual or forecast depreciation must be consistent with the capex incentive objective. This objective is to ensure that increases to the RAB through capex only occur where that capex reasonably reflects the capex criteria.³⁶ In deciding between actual and forecast depreciation, we have regard to:³⁷

- 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.

2.3.1 Interrelationships

The RAB is an input into the determination of the return on capital and depreciation (return of capital) building block amounts.³⁸ Factors that influence the RAB will therefore flow through

³¹ Refer to section 2.4.3 for the reasons.

³² NER, cl. S6A.2.1(f)(6).

³³ Any adjustments to the closing RAB at the end of the current regulatory control period for asset movements will be recorded under the 'Final Year Assets Adjustments' section in the RFM.

³⁴ NER, cl. S6A.2.4(c).

³⁵ NER, cl. S6A.2.2B(a).

³⁶ NER, cl. 6A.5A(a).

³⁷ NER, cl. S6A.2.2B(b) and (c).

³⁸ 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.

to these building block components and the annual building block revenue requirement. Other things being equal, a higher RAB increases both the return on capital and depreciation amounts.

The RAB is determined by various factors, including:

- the opening RAB (meaning the value of existing assets at the beginning of the regulatory control period)
- net capex³⁹
- depreciation
- indexation adjustment – so the RAB is presented in nominal terms, consistent with the rate of return.

The opening RAB of the 2023–28 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 regulatory control 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 year throughout the regulatory control period.

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 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 building block revenue requirement.

We maintain the RAB in real terms by indexing for inflation.⁴⁰ A nominal rate of return (WACC) is multiplied by the opening RAB to produce the return on capital building block.⁴¹ To prevent the double counting of inflation through the nominal WACC and indexed RAB,⁴² the regulatory depreciation building block has an offsetting reduction for indexation of the RAB.⁴³ 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 it 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)

³⁹ Net capex is gross capex less disposals. The rate of return or WACC also influences the size of the capex. This is because capex is not depreciated in the year it is first incurred, 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.

⁴⁰ NER, cl 6A.5.4(b)(1) and 6A.6.1(e)(3).

⁴¹ AER, *Rate of return instrument*, cl. 1, 3(a) and 36(c), December 2018.

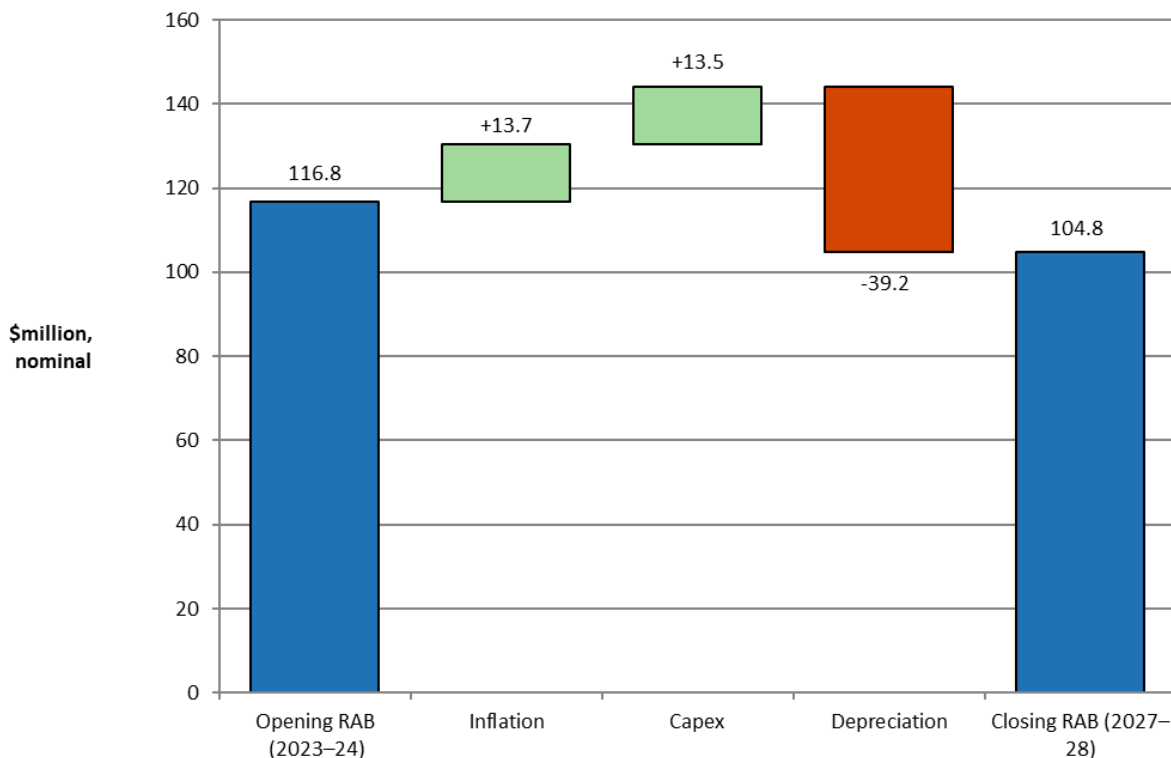
⁴² NER, cl. 6A.5.4(b)(1)(ii).

⁴³ 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 section 4.3.1 of Attachment 4 of this draft decision for further explanation of the offsetting adjustment to the depreciation.

and lower in the future—producing a steeper downward sloping profile of total revenue.⁴⁴ The implications of an un-indexed RAB are discussed further in Attachment 4.

Figure 2.1 shows the key drivers of the changes in the RAB over the 2023–28 period as proposed by Murraylink. Overall, the closing RAB at the end of the 2023–28 period would be 10% lower than the opening RAB at the start of that period based on the proposal, in nominal terms. The proposed forecast net capex increases the RAB by 12%. The expected inflation also increases it by 12%. Forecast depreciation, on the other hand, reduces the RAB by 34%.

Figure 2.1 Key driver of changes in the RAB (\$ million, nominal)



Source: Murraylink, *2023–28 Revenue proposal, Post-tax revenue model*, January 2022.

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

Murraylink’s proposed forecast depreciation amount for the 2023–28 period is \$39.2 million (\$ nominal). We have accepted many aspects of Murraylink’s depreciation proposal, subject to some modelling amendments, as it satisfies the requirements of the National Electricity Rules (NER) in terms of assigned asset lives. This is discussed in Attachment 4. The

⁴⁴ 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 present value neutrality.

depreciation amount largely depends on the opening RAB, which in turn depends on capex in the past.⁴⁵ Depreciation associated with forecast capex is a relatively smaller amount.

Forecast net capex is generally the key driver of an increase in RAB. For this draft decision, we are satisfied that Murraylink’s proposed forecast capex for the 2023–28 period reasonably reflects the capex criteria. We have therefore accepted Murraylink’s forecast capex proposal of \$13.5 million (\$ nominal).⁴⁶ Our review of Murraylink’s forecast capex is set out in Attachment 5 of this draft decision.

A 10% increase in the opening RAB causes revenues to increase by about 6.3%. 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.⁴⁷ Murraylink’s forecast RAB is decreasing in nominal terms due to reduced capex.

2.4 Reasons for draft decision

We determine an opening RAB value for Murraylink of \$130.7 million (\$ nominal) as at 1 July 2023, an increase of \$13.9 million (11.9%) from the proposed value. We forecast a closing RAB value of \$119.2 million by 30 June 2028. This represents an increase of \$14.4 million (13.7%) compared with Murraylink’s proposal. The reasons for our draft decision are discussed below.

2.4.1 Opening RAB as at 1 July 2023

We determine an opening RAB value of \$130.7 million (\$ nominal) as at 1 July 2023 for Murraylink. This value is \$13.9 million (11.9%) higher than Murraylink’s proposed opening RAB of \$116.8 million as at 1 July 2023.⁴⁸ This increase is mainly driven by updates and modelling amendments to the CPI inputs over the 2018–23 period which is discussed further below.

To determine the opening RAB for Murraylink as at 1 July 2023, we have rolled forward the RAB over the 2018–23 period to determine a closing RAB value as at 30 June 2023. In doing so, we reviewed the key inputs of Murraylink’s proposed RFM, such as rate of return, gross capex values, asset disposal values, forecast depreciation and asset lives. We found these were generally correct and reconcile with relevant data sources such as ABS data, regulatory accounts and the 2018–23 decision models.⁴⁹ However, we have made the following updates and amendments to Murraylink’s proposed RFM inputs:

⁴⁵ At the time of this draft decision, the roll forward of Murraylink’s RAB includes estimated capex values for 2021–22 and 2022–23. We expect to update the 2021–22 estimated capex with actuals in the final decision. We may also update the 2022–23 estimated capex with a revised estimate in the final decision.

⁴⁶ This amount is net of asset disposals and inclusive of half-year WACC adjustment.

⁴⁷ 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.

⁴⁸ Murraylink, *Attachment 15 – RFM*, January 2022.

⁴⁹ At the time of this draft decision, the roll forward of Murraylink’s RAB includes estimated capex values for 2021–22 and 2022–23. We will update the 2021–22 estimated capex with actuals in the final decision. We may also update the 2022–23 estimated capex with a revised estimate in the final decision.

- updated the nominal WACC input for 2022–23 and forecast straight-line depreciation values for 2018–23 following the most recent return on debt update for that year in the 2018–23 PTRM
- amended Murraylink’s CPI inputs in the RFM for 2018–19, 2019–20 and 2020–21 to reflect December quarter CPI as published by the ABS. Murraylink’s proposal applied a March quarter CPI in the RFM to establish the opening RAB as at 1 July 2023. This, however, is inconsistent with the method specified in the 2018–23 transmission determination, which set out that the December quarter CPI should be used in rolling forward the RAB.⁵⁰ Our draft decision RFM therefore applies the December quarter CPI for all years of the 2018–23 period. In response to an information request, Murraylink stated it has no concerns with our approach⁵¹
- included actual CPI of 3.5% for 2021–22 based on the 2021 December quarter CPI published by the ABS, which became available after Murraylink submitted its proposal. We also apply an estimated CPI of 7.8% for 2022–23 to reflect the RBA’s *Statement on Monetary Policy*.⁵² Murraylink’s proposal did not include estimated inflation values for 2021–22 and 2022–23 in its RFM. As a result, the model assumes no indexation adjustment will be made to the RAB for the final two years of the 2018–23 period. We do not consider this to be appropriate as Murraylink’s approach materially underestimates the opening RAB value as at 1 July 2023. In its response to our information request detailing our concerns, Murraylink agreed with our draft decision approach.⁵³

The above changes result in an increase in the opening RAB as at 1 July 2023 by \$13.9 million (or 11.9%). This increase is mainly driven by updates to the CPI inputs for 2021–22 and 2022–23.

Ex post review of 2016–21 capex

We also consider the extent to which our roll forward of the RAB to 1 July 2023 contributes to the achievement of the capex incentive objective.⁵⁴ In the 2018–23 transmission determination, we noted that the 2016–17 and 2017–18 capex would form part of the review period for whether past capex should be excluded for inefficiency reasons in this transmission determination.⁵⁵ The capex for 2018–21 also forms part of the review period. Consistent with the requirements of the NER, we have excluded the last two years of the 2018–23 period from the review of past capex for this transmission determination.⁵⁶ This approach ensures that actual capex (instead of estimated capex) is available when the review of past capex commences.

⁵⁰ AER, *Murraylink 2018–23 – Transmission determination*, April 2018, p. 6.

⁵¹ Murraylink, *Response to information request IR003*, 8 April 2022, p. 3.

⁵² RBA, *Statement on Monetary Policy, Appendix: Forecasts*, August 2022.

⁵³ Murraylink, *Response to information request IR003*, 8 April 2022, p. 3.

⁵⁴ NER, cl. 6A.14.2(b) and 6A.5A(a).

⁵⁵ AER, *Final decision, Murraylink transmission determination 2018–23, Attachment 2 – Regulatory asset base*, April 2018, p. 9.

⁵⁶ NER, cl. S6A.2.2A(a1).

Murraylink’s aggregate actual capex incurred from 2016–17 and 2020–21 is above the forecast allowance set at the previous relevant transmission determinations.⁵⁷ Therefore, the overspending requirement for an efficiency review of past capex is satisfied.⁵⁸ However, for the reasons discussed in Attachment 5, we consider the capex incurred in those years is consistent with the capex criteria and can therefore be included in the RAB.⁵⁹

Further, for the purposes of this draft decision, we have included estimated capex for 2021–22 and 2022–23 in the RAB roll forward to 1 July 2023. At the next reset, the 2021–22 and 2022–23 capex will form part of the review period for assessing whether past capex should be excluded for inefficiency reasons.⁶⁰ Our RAB roll forward applies the incentive framework approved in the previous transmission determination, which included the use of a forecast depreciation approach in combination with the application of the capital expenditure sharing scheme (CESS).⁶¹ As such, we consider that the 2018–23 RAB roll forward contributes to an opening RAB (as at 1 July 2023) that includes capex that reflects prudent and efficient costs, in accordance with the capital expenditure criteria.⁶²

2.4.2 Forecast closing RAB at 30 June 2028

We forecast a closing RAB value of \$119.2 million by 30 June 2028 for Murraylink, which represents an increase of \$14.4 million (13.7%) to Murraylink’s proposal. The increase reflects our draft decision on the inputs for determining the forecast RAB in the PTRM. Our draft decision used version 5.1 of the PTRM to forecast the closing RAB by 30 June 2028.⁶³ This new version of the PTRM was published after Murraylink submitted its revenue proposal and corrects for a calculation error.⁶⁴

The change in the size of the RAB over the 2023–28 period depends on our assessment of its various components including forecast capex (Attachment 5), expected inflation (Attachment 3) and forecast depreciation (Attachment 4). Inflation and capex increases the RAB, while depreciation and disposals reduce it.

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

- we increased Murraylink’s proposed opening RAB as at 1 July 2023 by \$13.9 million (\$ nominal) or 11.9% (section 2.4.1)
- we updated Murraylink’s proposed expected inflation rate from 2.37% per annum to 3.0% per annum over the 2023–28 period (Attachment 3). Compared to the proposal,

⁵⁷ Murraylink, *Transmission determination – Overview*, January 2022, pp. 12–13.

⁵⁸ NER, cl. S6A.2.2A(c).

⁵⁹ Ibid.

⁶⁰ Here, ‘inefficiency’ of past capex refers to three specific assessments (labelled the overspending, margin and capitalisation requirements) detailed in NER, cl. S6A.2.2A(b). The details of our ex post assessment approach are set out in AER, *Capital expenditure incentive guideline*, November 2013, pp. 13–20.

⁶¹ AER, *Final decision, Murraylink transmission determination 2018–23, Attachment 2 – Regulatory asset base*, April 2018, p. 11.

⁶² NER, cll. 6A.5A(a), 6A.6.7(c) and 6A.14.2(b).

⁶³ AER, *Electricity transmission network service providers: Post-tax revenue model (version 5.1)*, May 2022.

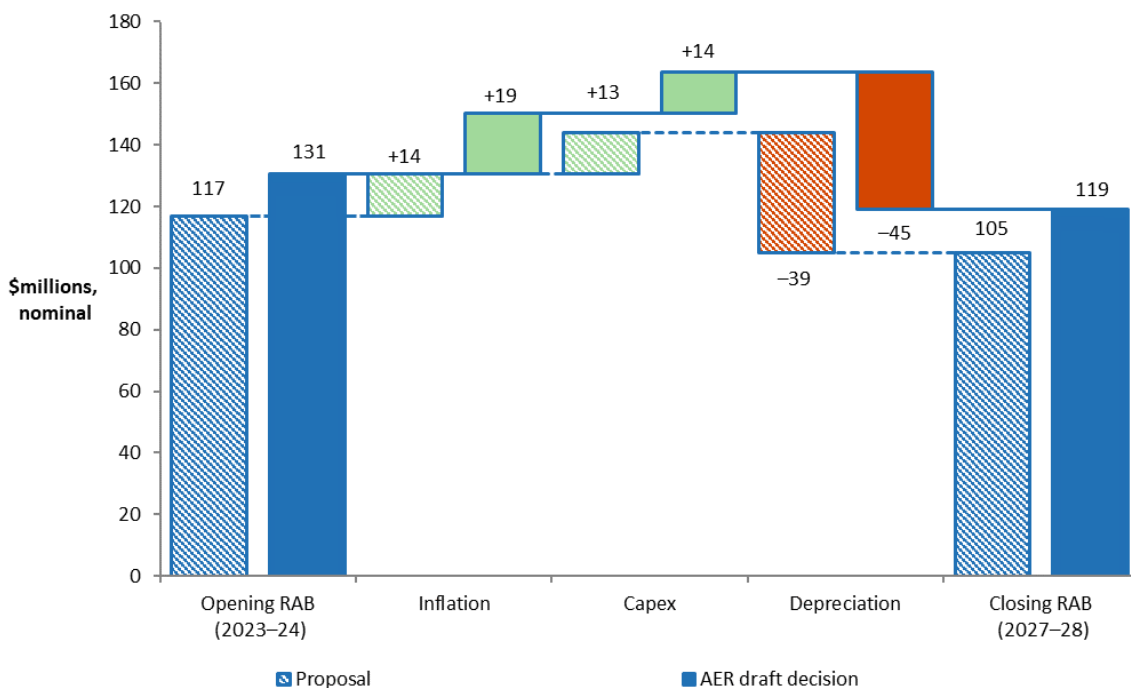
⁶⁴ The error affects the calculation of expected inflation for regulatory control periods longer than 5 years. As a result, this error does not affect Murraylink over the forecast 2023–28 period.

our draft decision results in an increase to the indexation of the RAB component for the 2023–28 period by \$5.8 million or 41.9% (\$ nominal)⁶⁵

- we increased Murraylink’s proposed forecast straight-line depreciation for the 2023–28 period by \$5.4 million (\$ nominal) or 13.7% (Attachment 4).

Figure 2.2 shows the key drivers of the change in Murraylink’s RAB over the 2023–28 period for this draft decision. Overall, our draft decision closing RAB at the end of the 2023–28 period is forecast to be 8.8% lower than the opening RAB at the start of that period, in nominal terms. The approved forecast net capex increases the RAB by 10.4%, while expected inflation increases it by 14.9%. Forecast depreciation, on the other hand, reduces the RAB by 34.1%.

Figure 2.2 Key drivers of changes in the RAB – Murraylink’s proposal compared with 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. We have accepted Murraylink’s proposed forecast capex in real dollar terms (Attachment 5). The difference in nominal capex reflects updates to expected inflation and the nominal vanilla WACC in our draft decision.

2.4.3 Application of depreciation approach in RAB roll forward for next reset

We determine that the depreciation approach to be applied to Murraylink’s opening RAB at the commencement of the 2028–33 period will be based on the depreciation schedules (straight-line) using forecast capex at the asset class level approved for the 2023–28 period.

⁶⁵ The increase in the indexation of the RAB is largely due to an increase in the expected inflation rate and higher opening RAB in our draft decision.

We consider this approach will provide sufficient incentives for Murraylink to achieve capex efficiency gains over the 2023–28 period.⁶⁶

Murraylink’s proposal did not specify what depreciation approach to use in the roll forward of the RAB for the commencement of its 2028–33 period. However, we consider that the forecast depreciation approach should be used to establish the opening RAB as at 1 July 2028. We note that this approach is consistent with our *Framework and Approach* paper.⁶⁷

We have used forecast depreciation for this draft decision when rolling forward the opening RAB at the commencement of the 2023–28 period (section 2.4.1). The use of forecast depreciation to establish the opening RAB for the commencement of the 2028–33 period at the next reset therefore maintains the current approach.

As discussed in Attachment 9, Murraylink is currently subject to the CESS for the 2018–23 period. We will continue to apply the CESS to Murraylink over the 2023–28 period. We consider that the CESS will provide sufficient incentives for Murraylink to achieve capex efficiency gains over that period. We are satisfied that the use of a forecast depreciation approach in combination with the application of the CESS and our other ex post capex measures are sufficient to achieve the capex incentive objective.⁶⁸

⁶⁶ NER, cll 6A.14.1(5E) and S6A.2.2B.

⁶⁷ AER, *Murraylink 2023–28 – Framework and Approach*, July 2021, p. 21.

⁶⁸ Our ex post capex measures are set out in the capex incentives guideline, AER, *Capital expenditure incentive guideline for electricity network service providers*, November 2013, pp. 13-19 and 20-21. The guideline also sets out how all our capex incentive measures are consistent with the capex incentive objective.

Glossary

Term	Definition
ABS	Australian Bureau of Statistics
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Capex	Capital expenditure
CESS	Capital expenditure sharing scheme
CPI	Consumer price index
NEO	National Electricity Objective
NER	National Electricity Rules
Opex	Operating expenditure
PTRM	Post-tax revenue model
RAB	Regulatory asset base
RFM	Roll forward model
TNSP	Transmission network service provider
WACC	Weighted average cost of capital