ElectraNet

How we are responding to the AER's Draft Decision

We are responding to and applying the AER's Draft Decision in our Revised Revenue Proposal as follows, including where we have been required to update and adjust our forecasts.

Component	AER Draft Decision	Our Response
Maximum Allowed Revenue (MAR)	The AER's Draft Decision produced a MAR requirement that is 15% higher than we proposed, increasing from $1,836m to $2,118m ($nom) on a smoothed basis. This increase is largely due to the impact of rising inflation and interest rates.	We have responded to and applied the AER's Draft Decision in relation to each of the revenue building blocks that determine the MAR as outlined below. This produces a revised MAR of $2,215m ($nom) on a smoothed basis.
Regulatory Asset Base (RAB)	The AER accepted our proposed RAB values with: • adjustments for higher expected inflation • changes in forecast depreciation and other minor inputs. This increased the opening RAB from $3,593m to $3,817m ($nom).	We accept the AER's Draft Decision on the RAB. As required, we have updated the RAB value for 2021-22 actual capital expenditure, the latest forecast expenditure for 2022-23 and updated inflation for these years. This produces a revised opening RAB of $3,852m ($nom).
Rate of Return	The AER accepted our proposed approach to calculating the rate of return and accepted our nominated averaging periods. It applied its 2018 Rate of Return Instrument to determine a placeholder estimate of 5.56% compared with our proposal of 4.29%, reflecting the impact of rising interest rates. It will apply its December 2022 Rate of Return Instrument in its final decision.	We accept the AER's Draft Decision on the rate of return. For simplicity we have maintained the AER's placeholder estimate of 5.56% while recognising this figure will be updated by the AER in its final decision.
Regulatory Depreciation	The AER accepted our approach to regulatory depreciation, with some minor adjustments. The depreciation forecast was reduced from $367m to $274m ($nom) reflecting the offsetting impact of increased RAB indexation due to higher inflation.	We accept the AER's Draft Decision on regulatory depreciation. Updated for inflation and opening RAB movements this produces a revised depreciation forecast of $288m ($nom).
Capital expenditure	The AER accepted our proposed capital expenditure forecast of $696m ($FY23).	We accept the AER's Draft Decision on forecast capital expenditure. Adjusted for inflation and real cost escalation, this results in a forecast of $746m ($FY23).
Contingent projects	The AER accepted two of our three contingent projects, with minor amendments to trigger events.	We accept the AER's Draft Decision on contingent projects.

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Component	AER Draft Decision	Our Response
Operating expenditure	The AER accepted the majority of our proposed operating expenditure forecast. It applied reductions to a number of step changes and applied updated inflation and real cost escalation estimates. These offsetting movements resulted in a reduction in our proposed forecast from $642m to $633m ($FY23), or a net reduction of 7.4% if inflation is held constant.	We do not accept the AER's Draft Decision on forecast operating expenditure. We have applied various adjustments and updates including: • updated insurance forecast based on latest annual costs • revised estimate for the cost of cyber security compliance • revised estimate for the impact of Rule changes and other capability uplift requirements, including licence fees and the development of Renewable Energy Zone (REZ) Design Reports • inclusion of a network support allowance to fund inertia support services we are providing to AEMO in 2023-24 and 2024-25 We have also adjusted the forecast for inflation and real cost escalation. This produces a revised forecast of $694m ($FY23)
Corporate income tax	The AER accepted and updated our corporate tax allowance, resulting in an increase from zero to $5.2m ($nom).	We accept the AER's Draft Decision on corporate tax. Updated for expenditure and revenue movements this results in a revised tax allowance of $3.3m ($nom).
Efficiency Benefit Sharing Scheme (EBSS)	The AER accepted our EBSS forecast with minor updates and adjustments. This resulted in an increased penalty outcome, rising from -$5m to -$11m ($nom).	We accept the AER's Draft Decision on the EBSS. Adjusted for our current expenditure profile this results in a revised penalty outcome of -$14m.
Capital Expenditure Sharing Scheme (CESS)	The AER did not accept our proposed approach and applied a capex deferral adjustment under the CESS. This results in a penalty outcome of -$8.8m ($nom).	We do not accept the AER's Draft Decision on the CESS. We have updated the CESS forecast to remove the capex deferral adjustment. This results in a penalty outcome of -$2.6m ($nom).
Service Target Performance Incentive Scheme (STPIS)	The AER accepted our STPIS proposal, with some minor adjustments to the Market Impact Component (MIC) target. Our Network Capability Incentive Parameter Action Plan (NCIPAP) was accepted.	We accept the AER's Draft Decision on the STPIS and NCIPAP.
Demand Management Innovation Allowance Mechanism (DMIAM)	The AER accepted our DMIAM proposal.	We accept the AER's Draft Decision on the DMIAM and will work with our Consumer Advisory Panel to implement it.
Pricing Methodology	The AER approved our proposed Pricing Methodology with minor updates.	We accept the AER's Draft Decision on our Pricing Methodology.
Pass through events	The AER approved most of our nominated cost pass through events, with minor amendments. It did not accept our nominated cost pass through event for REZ Design Reports.	We accept the AER's Draft Decision on our nominated cost pass through events with one amendment to address the risk of a cyber insurance event. We have included REZ Design Reports in our opex forecast.