Senate Select Committee into Energy Planning and Regulation in Australia

AEMC response to question taken on notice, 5 December 2024

Hansard p27:

Senator CANAVAN: How much, in your assumptions and this modelling report, is the capex base of the distribution grid?

Mr Barr: I'll have a look and see if I can answer it now; otherwise, I'll take it on notice.

Response

Network costs are regulated by the AER, who, based on proposals from each network, determines how much revenue each network business can recover from consumers. As part of these proposals, networks are required to provide forecasts of their annual revenue requirement and regulated asset base.

Our network cost model uses as much publicly available information as possible to project costs for distribution and transmission networks for 10 years. This includes projecting the networks' annual revenue requirement and regulated asset base.

We calculated annual revenue requirements using the building block method adopted by the AER:

- If data was available for an individual network, as part of a current or upcoming AER determination, we used that data from each network's post-tax revenue model (PTRM), adjusting for inflation in each year to ensure costs are calculated consistently. There is a substantial difference in the amount of data available for each network due to differing regulatory cycles. Figure 1 below shows the period in which we have public AER revenue requirements for each TNSP and DNSP.
- For the years where we do not have AER revenue requirements from the PTRM, we have used a combination of other data sources, including the draft proposals published by DNSPs. Where none of these alternative sources are available, we made assumptions to approximate the AER revenue requirements and project costs. More detail on key assumptions are included in the *Price Trends 2024 Methodology Paper*, available here: https://www.aemc.gov.au/sites/default/files/2024-11/Price%20Trends%202024%20Methodology%20Paper.pdf

Figure 1. Network data availability over the 10-year outlook

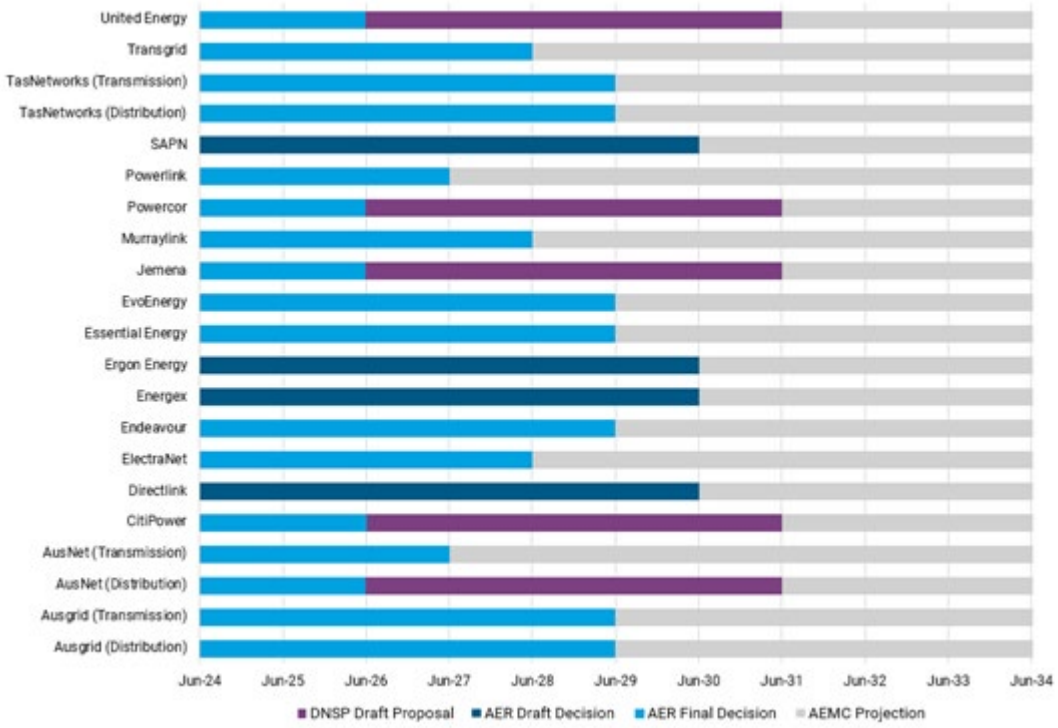

Figure 2 below presents our modelled Regulatory Asset Base for the distribution grid, under our base case over the 10-year outlook. We have broken down the estimates as follows:

- The dark blue lines show the projections over 2024-25 to 2028-29, which are based solely on DNSP revenue determinations or DNSP proposals
- The light blue line shows the projections over 2029-30 and 2030-31, which are a mixture: for some DNSPs they are based on public capex estimates, while for others they are based on AEMC projections of capex requirements that feed into the RAB
- The dotted line shows the projections over 2031-32 to 2033-34; in these years our projections of capex feed into the RAB for all DNSPs

Figure 2. Modelled Regulatory Asset Base for distribution networks under the base case

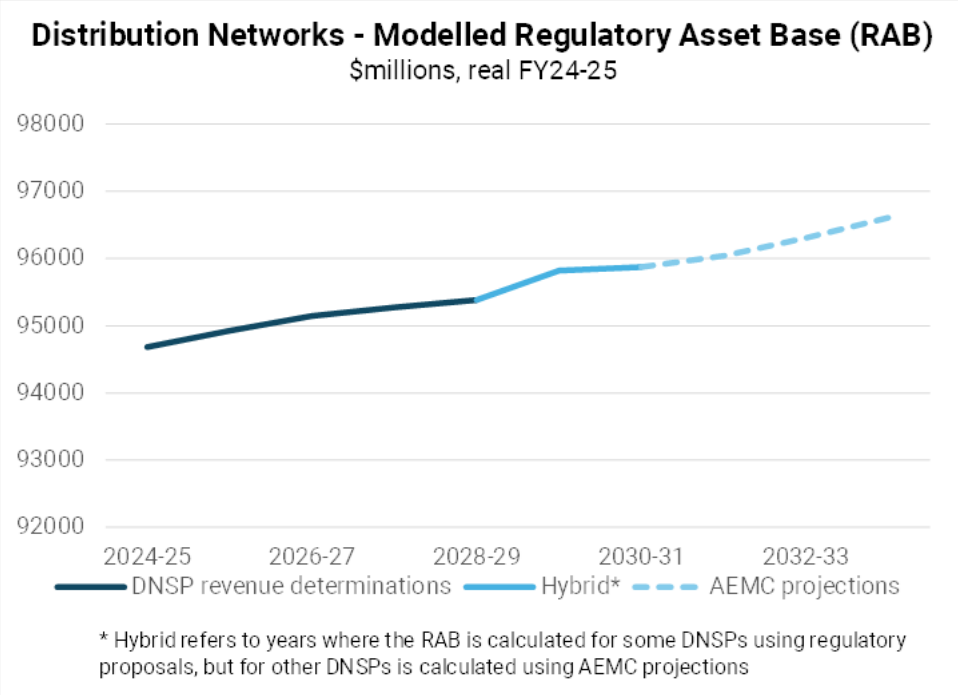

Table 1 below presents our RAB projections.

Table 1. Price Trends – modelled Regulatory Asset Base

$million, real $24-25

	Closing RAB 24-25	**Closing RAB** Final year of public estimates*	**Closing RAB 33-34**
Distribution networks	94,681.05	95,543.27	96,608.99
Transmission networks	31,894.03	37,363.15	48,048.01

** This is the value of assets, for the final year where a public capex estimate is available for each DNSP*

We also considered a scenario where DNSP capital expenditure was higher over the 10-year outlook. This is referred to as the "Higher network capex" scenario in our report. Specifically, we assumed that DNSP replacement capital expenditure (CAPEX) is doubled, relative to historical levels, after the current AER determination periods. These projections are presented in Figure 3 below.

- Please note that, under this scenario, we assumed that Victorian DNSP capex would be higher from 2026-27 onwards, as the estimates are based on DNSP Draft Proposals, which could potentially change after the AER's regulatory determination process.

Figure 3. Modelled Regulatory Asset Base for distribution networks under the higher capex scenario

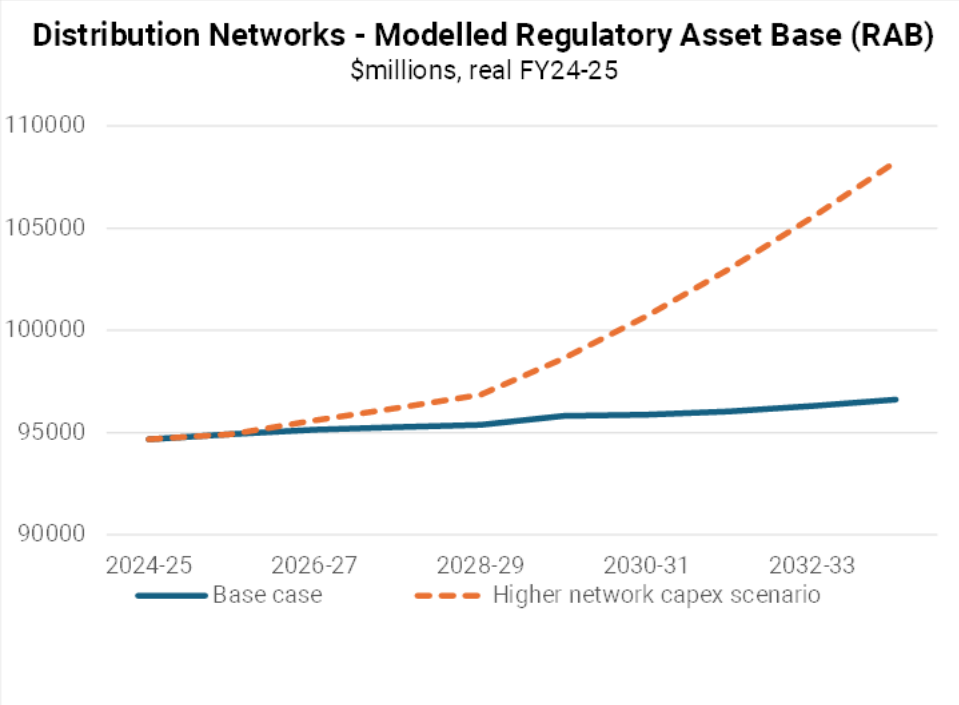

Table 2 below presents the estimates under the "Higher network capex" scenario.

Table 2. Price Trends – modelled Regulatory Asset Base for Distribution networks

$million, real $24-25

	Closing RAB 24-25	**Closing RAB 33-34**
Base case	94,681.05	96,608.99
Higher network investment	94,681.05	108,238.22

ENDS.